

*AB SANITAS*

*Report for the Third Quarter of 2006*



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## I. GENERAL PROVISIONS

### 1. Reporting period for which the report has been prepared

The report has been prepared for the third quarter of 2006.

### 2. Main data about the Issuer

Name of the Issuer	Public Limited Liability Company AB Sanitas
Code in the Register of Enterprises	1341 36296
Authorised capital	LTL 31,105,920
Address	Vytauto ave. 3, LT-44354 Kaunas, Lithuania
Telephone	+370 37 22 67 25
Fax	+370 37 22 36 96
E-mail address	<a href="mailto:info@sanitas.lt">info@sanitas.lt</a>
Internet address	<a href="http://www.sanitas.lt">www.sanitas.lt</a>
Legal and organisational form	public limited liability company
Date and place of registration	30 June 1994, with the Kaunas City Board
Register	Register of Legal Persons

### 3. Information about where and how it is possible to get acquainted with the report and other documents in accordance with it was prepared and the names of the means of the mass media

The Report and other documents on the basis whereof this report was prepared are available at the company's registered office at Vytauto ave. 3, Kaunas, and at the Financial Brokerage Company AB Finasta AB at Konstitucijos ave. 23, Vilnius.

The means of mass media of AB Sanitas: the daily Verslo žinios, Lithuanian News Agency ELTA.

### 4. Persons responsible for the accuracy of information in the report

4.1. Members of the managing bodies of the Issuer, employees and the head of the administration responsible for the report

Saulius Jurgelėnas, Director General, tel. +370 37 22 67 25, fax +370 37 22 36 96

Eladijus Kirijanovas, Chief Financial Officer tel. tel. +370 37 22 67 25, fax +370 37 22 36 96

Rūta Milkuvienė, Head of Legal and General Issues Department, tel. +370 37 20 06 62, fax +370 37 22 36 96

4.2. The report was prepared by FBC AB Finasta represented by Director Dalius Kaziūnas (Konstitucijos ave. 23, Vilnius, tel. +370 5 278 68 44, fax +370 5 210 24 74), in accordance with the information provided by the company.



**5. Confirmation of the members of the Issuer's managing bodies, its employees, head of administration and the Issuer's consultants responsible for the preparation of this report that information contained in the report is true and there are no suppressed facts which could have an impact on investors' decisions concerning purchase, sale or valuation of the Issuer's securities or on the market price of these securities**

AB Sanitas, represented by Saulius Jurgelėnas, Director General, Eladijus Kirijanovas, Chief Financial Officer, and Rūta Milkuvienė, Head of Legal and General Issues Department, confirms that information contained in the report is true and there are no suppressed facts which could have an impact on investors' decisions concerning purchase, sale or valuation of the Issuer's securities or on the market price of these securities.

Director General of AB Sanitas **Saulius Jurgelėnas**

\_\_\_\_\_

Chief Financial Officer of AB Sanitas **Eladijus Kirijanovas**

\_\_\_\_\_

Head of Legal and General Issues Department of AB Sanitas **Rūta Milkuvienė**

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Hereby, FBC AB Finasta represented by Director Dalius Kaziūnas confirms that the Report contains precise information which was submitted to FBC AB Finasta by the employees and managers of AB Sanitas. FBC AB Finasta is responsible for the proper formalisation of the information submitted to it. AB Sanitas bears responsibility for the correctness of the information.

Director of FBC AB Finasta **Dalius Kaziūnas**

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The report was signed on 30 October 2006

The report was drafted by FBC AB Finasta (Konstitucijos Ave. 23, Vilnius)

## II. INFORMATION ABOUT THE ISSUER'S LARGEST SHAREHOLDERS AND MEMBERS OF THE MANAGING BODIES

### 6. Shareholders

AB Sanitas share capital – 31,105,920. Company's share capital comprised of 31,105,920 ordinary shares with a nominal value of 1 Litas each. All shares are fully paid

On 29 September 2006 the total number of AB Sanitas shareholders was 1,006.

Table 6.1. Shareholders who held more than 5 per cent of the Issuer's authorised capital and / or votes on 29 September 2006

Name of the shareholder, its type, address of head office, code in the Register of Enterprises	Number of ordinary registered shares owned by the right of ownership	Share of the authorized capital, %	Share of votes given by the shares owned by the right of ownership, %	Share of votes of shareholders that are acting jointly, %
AB INVALIDA Seimyniskiu str. 3, Vilnius, Lithuania 1213 04349	9,791,322	31.48	31.48	90.28
UAB FINASTA INVESTICIJŲ VALDYMAS Konstitucijos ave. 23, Vilnius, Lithuania 1262 63073	84,110	0.27	0.27	
FUNDS MANAGED BY UAB FINASTA INVESTICIJŲ VALDYMAS Konstitucijos ave. 23, Vilnius, Lithuania 1262 63073	1,182,987	3.80	3.80	
FUNDS MANAGED BY UAB „MEDICINOS BANKO INVESTICIJŲ VALDYMAS“ Pamėnkalnio str. 40, Vilnius, Lithuania 1263 20211	308	0.001	0.001	
UAB FINASTA RIZIKOS VALDYMAS Konstitucijos ave. 23, Vilnius, Lithuania 3000 45450	2,363	0.01	0.01	
FBC AB FINASTA Konstitucijos ave. 23, Vilnius, Lithuania 1225 70630	712.542	2.29	2.29	
UAB NENUORAMA J. Tumo–Vaizganto str. 9-38, Vilnius 2264922	2,308,323	7.42	7.42	

Continued

Name of the shareholder, its type, address of head office, code in the Register of Enterprises	Number of ordinary registered shares owned by the right of ownership	Share of the authorized capital, %	Share of votes given by the shares owned by the right of ownership, %	Share of votes of shareholders that are acting jointly, %
UAB AIKSTENTIS Seimyniškių str. 1A, Vilnius 1264 12617	-	0.0004	0.0004	90.28
ALVYDAS BANYS	123,440	0.40	0.40	
DAILIUS JUOZAPAS MIŠEIKIS	95,265	0.31	0.31	
JONAS BIELINIS	330,965	1.06	1.06	
NERIJUS NAUSĖDA	248,805	0.80	0.80	
TOMAS NAUSĖDA	333,220	1.07	1.07	
ALVYDAS DIRVONAS	516,707	1.66	1.66	
ARŪNAS TUMA	516,727	1.66	1.66	
DARIUS ŽAROMSKIS	516,702	1.66	1.66	
DONATAS JAZUKEVIČIUS	441,702	1.42	1.42	
AMBER TRUST II SCA 52 route d'Esch, L-2965 Luxembourg B 103.888	3,888,384	12.50	12.50	
DANSKE CAPITAL BALTIC FUND	193,888	0.62	0.62	
DCF FUND II BALTIC STATES	517,920	1.67	1.67	
FIREBIRD REPUBLICS FUND LTD.	711,808	2.29	2.29	
CITYGROUP VENTURE CAPITAL INTERNATONAL JERSEY LIMITED 90207	5,312,000	17.08	17.08	

## 7. Members of the managing bodies

AB Sanitas has the General Meeting, single person management organ – the manager (Director General) and collegial supervisory organ – the Board. The Supervisory Board is not formed in the company.

The Board of the Company is formed from 5 members and is elected by the General Meeting for the 4 years period. The manager of the company is elected and removed by the Board which also fix his salary, approve his job description, provide incentives and impose penalties.

AB Sanitas Management Board was elected at the General Meeting of Shareholders that held on 27 April, 2006. The meeting adopted to approve the amendments of the Articles of Association, by setting that there is no Supervisory Board in the Company, but the Management Board, to elect to the Management Board Dailius Juozapas Mišeikis, Darius Šulnis, Darius Žaromskis, Dalius Kaziūnas, Saulius Jurgelėnas. On May 15, 2006 the Articles of Association of Sanitas AB were registered in the Register of Legal Persons of the Republic of Lithuania. The Company's Board started its activities from the day of the registration of the Articles of Association.

At the General Meeting of Shareholders of Sanitas AB that took place on 31 July, 2006 was adopted to withdraw Saulius Jurgelenas and Dalius Kaziunas from the company's Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company's Management Board.

#### 7.1. Position held, names and surnames, data about participation in the Issuer's authorised capital

Table 7.1.1. Members of the Board

Name, surname	Share of the capital owned by the right of ownership, %
<p><b>Chairman of the board Darius Šulnis</b>            Educational background: Vilnius University, Faculty of Economics            Work experience: from 1994 till 2002 worked as a director of FBC AB FMĮ Finasta, between 2002 and 2005 was a director of UAB Invalda Real Estate. From the beginning of 2006 works as a president of AB Invalda.</p>	-
<p><b>Dailius Juozapas Mišeikis</b>            Educational background: Vilnius University, Faculty of Economics            Work experience: from 1992 works in AB Invalda as Director of Real estate, form 1998 as a vice president, from 2006 is the advisor of the company.</p>	0.31
<p><b>Darius Žaromskis</b>            Educational background: higher education, lawyer            Work experience: till August 2005 worked as a director of UAB Kaminera and UAB Kamineros grupė. From November 2003 till July 2005 worked as a Director General of AB Vilniaus degtinė.</p>	1.42
<p><b>Sunil Kumar Nair</b> (from 31 July 2006)            Educational background: holds an M.B.A. degree (specializing in Finance and Strategy) from Yale University, an M.S. degree in Economics from Scuola Superiore EM, Milan, Italy, and a Master's degree in Commerce from the University of Madras, India.            Work experience: heads Citigroup Venture Capital International (CVCI's) investments in the CEEMEA region. Prior to joining CVCI in 1999, Sunil was responsible for originating and structuring fixed income derivatives at Salomon Smith Barney in New York and for Strategic Planning for the Capital Markets business of Citibank in New York. Before joining Citigroup, Sunil worked for McKinsey &amp; Company, in New York and Stamford, as a senior consultant. Prior to this, he established and managed businesses in India in the Textile and Hospitality sectors.</p>	-
<p><b>Martynas Česnavičius</b> (from 31 July 2006)</p>	-
<p><b>Dalius Kaziūnas</b> (till 31 July 2006)            Educational background: Vilnius University, Faculty of Economics            Work experience: From 2002 CEO of Finasta; 1998 - 2002 Financial broker of Finasta, merchant licence; 1996 - 1998 Assistant financial broker, since 3 October 2002 director of FMĮ Finasta AB</p>	-
<p><b>Saulius Jurgelėnas</b> (till 31 July 2006)            Educational background: Vilnius University, Faculty of Economics            Work experience: from 1994 till 1995 FBC Preliks financial broker, from 1995 till 1997 KIRA „Consulta“ marketing advisor, 1997 Pragma Corporation financial advisor, from 1997 till 2000 UAB Narbutas ir Ko sales department Director for Baltic States, from 2000 till 2001 worked as representative for Baltic States of Laufen CZ, between 2001 and 2002 worked as finance and economics director and Director General of UAB Kraitenė. From 2002 till 2004 he worked as finance and economics director and managing director of TŪB Nemuno banga, from 2004 till 2005 – consultant of UAB VRS agency, from 2005 works as Director General of AB Sanitas</p>	-

Table 7.1.2. Members of the Administration

Name, surname	Share of the capital owned by the right of ownership, %
<p><b>Director General Saulius Jurgelėnas</b></p> <p>Educational background: Vilnius University, Faculty of Economics</p> <p>Work experience: from 1994 till 1995 FBC Preliks financial broker, from 1995 till 1997 KIRA „Consulta“ marketing advisor, 1997 Pragma Corporation financial advisor, from 1997 till 2000 UAB Narbutas ir Ko sales department Director for Baltic States, from 2000 till 2001 worked as representative for Baltic States of Laufen CZ, between 2001 and 2002 worked as finance and economics director and Director General of UAB Kraitenė. From 2002 till 2004 he worked as finance and economics director and managing director of TŪB Nemuno banga, from 2004 till 2005 – consultant of UAB VRS agency, from 2005 works as Director General of AB Sanitas.</p>	-
<p><b>Chief Financial Officer Eladijus Kirijanovas</b></p> <p>Educational background: Vilnius University, Master of Law (since 2006), Baltic Management Institute (BMI), International Master of Business Administration (EMBA); Vytautas Magnus University, Master of Business Administration.</p> <p>Work experience: till 2000 worked as Senior Accountant in „Tex-Color“, Inbau, Inconsult. From 2000 till he worked as Chief Financial Officer in „Sonex“ Holding. From 2001 till 2004 - Chief Operating Officer, Vice-President of „Sonex“ Holding. From 2004 till 2006.04 – president of „Sonex“ Holding (board member). From 12 June 2006 works as Chief Financial Officer of AB Sanitas.</p>	-
<p><b>Till 01 July 2006 Chief Finance Officer Dalia Švelnytė</b></p> <p>Educational background: Vilnius University, Faculty of Economics</p> <p>Work experience: from 1992 till 2003 worked as Chief Financier Officer of ABF Lietuvos tara, from 2002 till 2003 – Chief Financier Officer of UAB Vūsta, between 2004 and 2005 worked as Chief Financier Officer of AB Endokrininiai preparatai. From 2001 works as Chief Financier Officer of UAB Lipnios etiketės, from 2003 as Chief Financier Officer of AB Sanitas, from May 2006 Head of financial department of FBC AB Finasta.</p>	-

7.2. Data about participation in the activities of other companies, enterprises and organisations (name of the company, enterprise, or organisation and position held), over 5 percent of capital and votes held in other enterprises (percentage)

Table 7.2.1. Participation in activities of other companies, enterprises and organizations (for the date 29 September 2006)

Name, surname	Name of the company, enterprise, organization, position held	Share of capital and votes held in other enterprises by the right of ownership, %
Darius Šulnis	President and Member of the Board of AB Invalda	8.40
	Chairman of the Board of AB Sanitas	-
	Chairman the Supervisory Board of Jelfa (Poland)	-
	Chairman of the Board of UAB Invalda Construction Management	-
	Chairman of the Board of UAB Hidroprojektas	-
	Chairman of the Board of FBC AB Finasta	-
	Chairman of the Board of UAB Finasta investicijų valdymas	-
	Member of the Board of AB Agrovaldymo grupė	-
	Member of the Board of UAB Broner	-
	Member of the Board of UAB Wembley-Neringa	-
	Chairman the Supervisory Board of SIA Industrial and logistics centre „Lapegles“ (Latvia)	-
	Chairman the Supervisory Board of SIA DOMMO (Latvia)	-
	UAB PVP (in process of liquidation)	36.7
UAB Golfas	31.0	



Continued

Name, surname	Name of the company, enterprise, organization, position held	Share of capital and votes held in other enterprises by the right of ownership, %
	Chairman the Supervisory Board of SIA „AMMO“ (Latvia)	-
	Chairman the Supervisory Board of SIA „Celtniecibas Pasaule“ (Latvia)	-
Dailius Juozapas Mišeikis	Member of the Board of AB Invalda	15.09
	Member of the Board of FBC AB Finasta	-
	Member of the Board of UAB Invalda Construction Management	-
	Chairman of the Board of UAB Invalda Real Estate	-
	Member of the Board of AB Klaipėdos konditerija	-
	Member of the Board of AB Valmeda	-
	Member of the Board of AB Sanitas	-
	Member of the Board of AB Umega	-
	UAB PVP (in process of liquidation)	36.7
	UAB Nenuorama	33.3
	AB Grigiškės	5.11
	Member of Supervisory Board of AB Vernitas	-
	Member of the Board of UAB Hidroprojektas	-
	Member of the Board of AB Invaldos nekilnojamojo turto fondas	-
	Chairman of the Board of UAB Broner	-
	Chairman of the Board of UAB Wembley – Neringa	-
	Member of the Board of AB Minija	-
	Member of the Board of AB Vilniaus baldai	-
	Chairman of the Board of UAB Aikstentis	-
Darius Žaromskis	UAB Kamineros grupė	50.0
	Chairman of the Board of AB Vilniaus degtinė	19.99
	Member of the Board of AB Spindulys	8.10
	UAB Svilita	100.0
	AB Biržų agroservisas	20.0
	UAB Bagem	25.0
	Member of the Board of AB Sanitas	-
	Member of the Board of AB Umega	-
	UAB Jungtinis turto centras	25.0
Sunil Kumar Nair	Director General of Citigroup Venture Capital International (CVCI)	-
	Member of the Supervisory Board of AS Tallink Grupp (Estonia)	-
	Member of the board of UAB Palink	-
	Member of the board of Eurasian Brewery Holdings Limited (Jersey, Channel Islands)	-
	Member of the board of AB Sanitas	-
	Member of the board of Lupin Pharmaceuticals Limited (India)	-
Saulius Jurgelėnas	Director of UAB Altisana	-
	Director General of Hoechst-Biotika spol.sr.o. (Slovakia)	-
	Member of the Board of Jelfa SA	-
	Chairman of the Board of Sanitas Polska Sp.z.o.o	-

Continued

Name, surname	Name of the company, enterprise, organization, position held	Share of capital and votes held in other enterprises by the right of ownership, %
Martynas Česnavičius	Member of the Board of UAB Laisvas Nepriklausomas Kanalas	-
	Member of the Board of UAB Litagros Chemija	-
	Member of the Board of UAB Atradimu Studija	-
	Chairman of the Board of UAB 1L Ekspresas	45.0
	Member of the Board of AB Sidabra	-
	Member of the Board of AB Malsena	-
	Member of the Board of AB Kauno pieno centras	-
	Member of the Board of AB Utenos trikotažas	-
Eladijus Kirijanovas	Member of the Board of Jelfa SA	-

### III. FINANCIAL STATUS

The consolidated financial statements for the third quarter of 2006 consolidate the financials of AB “Sanitas” and its subsidiaries, “Hoechst-Biotika s.r.o.” (Slovakia), Jelfa SA (Poland) and UAB “Altisana”.

The consolidated financial statements as of 31 December 2005 consolidate the financials of AB “Sanitas” and its subsidiaries, “Hoechst-Biotika s.r.o.” (Slovakia) and UAB “Altisana”.

#### 8. Balance sheet

LTL

ASSETS	NOTE	GROUP'S			COMPANY'S		
		30 09 2006	31 12 2005	30 09 2006	30 09 2006	31 12 2005	30 09 2006
NON-CURRENT ASSETS							
Goodwill		248,140,053	0	(3,232,048)			
Property, plant and equipment	11	288,909,254	51,613,145	68,080,333	17,818,875	16,193,985	28,887,062
Intangible assets	12	16,494,641	915,591	315,005	198,284	178,947	189,812
Investments	13	13,021,639	38,503,285	226,537	109,988,414	83,901,685	45,624,937
Long-term receivables		2,230,018	62,624	53,190	62,624	62,624	53,190
Deferred tax assets	9	633,441	2,499,575	71,000	121,822	835,442	71,000
TOTAL NON-CURRENT ASSETS		569,429,046	93,594,220	65,514,017	128,190,019	101,172,683	74,826,001
CURRENT ASSETS							
Inventories	15	60,811,320	11,498,144	12,555,867	6,222,252	6,033,505	6,669,202
Trade receivables	16	47,254,296	13,806,634	32,440,682	4,732,622	6,570,785	8,182,974
Income tax prepaid		112,347	700,281	422,170	53,189	0	0
Other receivables	17	6,073,103	1,334,848	1,272,292	229,007,717	3,598,991	1,932,986
Investment in associate	13		0	7,898,941		0	7,898,941
Assets held for sale	14	8,199,916	20,733,950		8,199,916	8,199,916	
Cash and cash equivalents	18	18,362,132	4,846,639	9,222,380	116,048	1,559,601	963,768
TOTAL CURRENT ASSETS		140,813,114	52,920,496	63,812,332	248,331,744	25,962,798	25,647,871
<b>TOTAL ASSETS</b>		<b>710,242,160</b>	<b>146,514,716</b>	<b>129,326,349</b>	<b>376,521,763</b>	<b>127,135,481</b>	<b>100,473,872</b>

Continued

EQUITY AND LIABILITIES	NOTE	GROUP'S			COMPANY'S		
		30 09 2006	31 12 2005	30 09 2006	30 09 2006	31 12 2005	30 09 2006
EQUITY	19						
Share capital		31,105,920	11,000,000	11,000,000	31,105,920	11,000,000	11,000,000
Minority interests							
Share premium		247,975,422	17,553,588	17,553,588	247,975,422	17,553,588	17,553,588
Legal reserves		3,110,592	1,801,104	1,801,104	3,110,592	1,801,104	1,801,104
Other distributable reserves		(4,066,290)	(1,486,214)		3,042,276	(3,042,276)	
Retained earnings		21,224,393	24,870,660	19,661,865	32,706,721	25,579,374	17,176,188
TOTAL EQUITY		299,350,037	53,739,138	50,016,557	317,940,931	52,891,790	47,530,880
NON CURRENT LIABILITIES							
Interest bearing loans and borrowings	21	316,403,473	21,409,344	28,448,969	19,975,073	21,409,344	28,448,969
Deferred grant income	22	3,107,280	1,415,424		3,107,280	1,415,424	
Deferred taxes					0	0	834,981
TOTAL NON CURRENT LIABILITIES		319,510,753	22,824,768	28,448,969	23,082,353	22,824,768	29,283,950
CURRENT LIABILITIES							
Interest bearing loans and borrowings	21	27,795,579	53,821,245	17,051,851	21,892,753	42,209,715	6,379,771
Trade creditors		34,164,831	10,300,198	19,932,144	9,172,860	5,577,426	6,395,272
Other creditors	23	25,869,265	3,716,848	11,831,780	1,393,108	1,519,263	10,883,999
Corporate income tax payable	9	3,551,695	2,112,519	2,045,048	3,039,758	2,112,519	0
TOTAL CURRENT LIABILITIES		91,381,370	69,950,810	50,860,823	35,498,479	51,418,923	23,659,042
TOTAL LIABILITIES		410,892,123	92,775,578	79,309,792	58,580,832	74,243,691	52,942,992
<b>TOTAL EQUITY AND LIABILITY</b>		<b>710,242,160</b>	<b>146,514,716</b>	<b>129,326,349</b>	<b>376,521,763</b>	<b>127,135,481</b>	<b>100,473,872</b>

## 9. Profit and loss account

LTL

	NOTE	GROUP'S		COMPANY'S	
		3Q 2006	3Q 2005	3Q 2006	3Q 2005
TURNOVER	4	94,484,811	44,304,138	24,295,914	26,363,507
Cost of sales		60,821,172	33,804,335	12,203,632	15,293,662
GROSS PROFIT	4	33,663,639	10,499,803	12,092,282	11,069,845
Distribution expenses	5	30,997,593	1,560,530	1,697,033	1,560,530
Administration expenses	6	18,598,424	5,295,408	5,361,493	4,688,132
Other operating income	7	18,429,475	5,767,274	2,879,379	950,157
Other operating expense	7	5,417,737	422,822	1,901,725	348,150
OTHER OPERATING INCOME AND EXPENSE, NET		13,011,738	5,344,452	977,654	602,007
OPERATING PROFIT BEFORE FINANCING ACTIVITIES		(2,920,640)	8,988,317	6,011,410	5,423,190
Dividends	13			3,975,733	
Financial income	8	12,471,378	627,453	4,896,022	488,304
Financial expense	8	12,248,178	796,223	1,678,350	538,912
FINANCING COST, NET		223,200	(168,770)	3,217,672	(50,608)
PROFIT BEFORE TAXES		(2,697,440)	8,819,547	13,204,815	5,372,582
Corporate income tax	9	(3,372,869)	1,789,113	1,725,704	827,825
PROFIT AFTER TAXES		675,429	7,030,434	11,479,111	4,544,757
Minority interests					
NET PROFIT FOR THE YEAR		675,429	7,030,434	-	-
Earnings per share (LTL)	20	0.03	0.73	0.47	0.47

9<sup>(1)</sup>. Statement of changes in equity

LTL

COMPANY		SHARE CAPITAL	SHARE PREMIUM	TREASURY SHARES	LEGAL RESERVE	FAIR VALUE RESERVE	OTHER RESERVES	RETAINED EARNINGS	TOTAL
CAPITAL AND RESERVES AS AT 01 JANUARY 2005	19	8,955,295	0	0	1,801,104	0	4,450,367	9,972,123	25,178,889
Net profit		0	0	0	0	0	0	4,544,757	4,544,757
Dividends		0	0	0	0	0	0	(1,791,059)	(1,791,059)
Transfer from reserves	19	0	0	0	0	0	(4,450,367)	4,450,367	0
New emission of shares	19	2,044,705	17,553,588	0	0	0	0	0	19,598,293
CAPITAL AND RESERVES AS AT 30 SEPTEMBER 2005	19	11,000,000	17,553,588	0	1,801,104	0	0	17,176,188	47,530,880
Net profit		0	0	0	0	0	0	8,403,186	8,403,186
Change in fair value of equity	13					(3,042,276)			
CAPITAL AND RESERVES AS AT 31 DECEMBER 2005	19	11,000,000	17,553,588	0	1,801,104	(3,042,276)	0	25,579,374	52,891,790
New emission of shares	19	20,105,920	230,421,834	0	0	0	0	0	250,527,754
Net profit		0	0	0	0	0	0	11,479,111	11,479,111
Transfer to reserves	19	0	0	0	1,309,488	0	0	(1,309,488)	0
Change in fair value of equity	13	0	0	0	0	6,084,552	0	(3,042,276)	3,042,276
CAPITAL AND RESERVES AS AT 30 SEPTEMBER 2006	19	31,105,920	247,975,422	0	3,110,592	3,042,276	0	32,706,721	317,940,931



GROUP		SHARE CAPITAL	SHARE PREMIUM	LEGAL RESERVE	FAIR VALUE RESERVE	TRANSLATION RESERVE	MINORITY INTERESTS	OTHER RESERVES	RETAINED EARNINGS	TOTAL
CAPITAL AND RESERVES AS AT 01 JANUARY 2005	19	8,955,295	0	1,801,104	0	0	0	4,450,367	9,972,123	25,178,889
Net profit		0	0	0	0	0	0	0	7,030,434	7,030,434
Dividends		0	0	0	0	0	0	0	(1,791,059)	(1,791,059)
Transfer from reserves	19	0	0	0	0	0	0	(4,450,367)	4,450,367	0
New emission of shares	19	2,044,705	17,553,588	0	0	0	0	0	0	19,598,293
CAPITAL AND RESERVES AS AT 30 SEPTEMBER 2005	19	11,000,000	17,553,588	1,801,104	0	0	0	0	19,661,865	50,016,557
Change in fair value of equity	13	0	0	0	(3,042,276)	0	0	0	0	(3,042,276)
Foreign exchange translation differences		0	0	0	0	1,556,062	0	0	0	1,556,062
Net profit		0	0	0	0	0	0	0	5,208,795	5,208,795
CAPITAL AND RESERVES AS AT 31 DECEMBER 2005	19	11,000,000	17,553,588	1,801,104	(3,042,276)	1,556,062	0	0	24,870,660	53,739,138
New emission of shares	19	20,105,920	230,421,834	0	0	0	0	0	0	250,527,754
Net profit		0	0	0	0	0	0	0	675,429	675,429
Transfer to reserves	19	0	0	1,309,488	0	0	0	0	(1,309,488)	0
Change in fair value of equity	13	0	0	0	(77,334)	0	0	0	(3,042,276)	(3,119,610)
Foreign exchange translation differences		0	0	0	0	(2,502,742)	0	0	30,068	(2,472,674)
CAPITAL AND RESERVES AS AT 30 SEPTEMBER 2006	19	31,105,920	247,975,422	3,110,592	(3,119,610)	(946,680)	0	0	21,224,393	299,350,037

9<sup>(2)</sup>. Cash flow statement

	GROUP'S		COMPANY'S	
	3Q 2006	3Q 2005	3Q 2006	3Q 2005
Profit before taxation	(2,697,440)	8,819,547	13,204,815	5,372,582
Adjustments for:				
Depreciation and amortization	13,997,038	4,440,398	2,081,350	3,507,653
Gain/ loss on disposal of fixed assets	1,009,161	39,974	588	39,974
Write down of inventories	860,783	0	31,703	0
Changes in impairment losses of receivables	79,750	0		
Interest received	(20,541)	(1,269)	(4,709,333)	(12,739)
Interest paid	8,705,791	(15,198)	1,529,921	580,356
Unrealised foreign exchange loss	(1,574,072)	637,052		
Dividends received			(3,975,733)	0
Net cash inflow from ordinary activities before any change in working capital	20,360,470	13,920,504	8,163,311	9,487,826
Change in trade and other receivables	34,643,808	524,251	(223,570,563)	2,736,146
Change in inventories	(4,161,531)	10,110,207	(220,450)	(1,748,323)
Change in trade creditors and other creditors	1,382,715	(2,362,679)	3,469,279	4,247,419
Interest received	20,541	15,198	4,709,333	12,739
Interest paid	(8,705,791)	(637,052)	(1,529,921)	(580,356)
Profit tax paid/received	4,500,250	881,228	(851,654)	(881,228)
Dividends paid	0	(1,791,059)	0	(1,791,059)
NET CASH INFLOW FROM OPERATING ACTIVITIES	48,040,462	20,660,598	(209,830,665)	11,483,164
Acquisition of property, plant and equipment	(10,118,582)	(5,277,370)	(3,710,102)	(4,899,196)
Capitalisation of intangible fixed assets	(2,283,937)	(69,803)	(88,646)	(29,183)
Disposal of property, plant and equipment	72,583	0	72,583	0
Acquisition of other equity securities (Jelfa)	(510,159,978)	0		
Acquisition of subsidiary Sanitas Polska			(45,175)	0
Acquisition of other equity securities	(11,169,466)	3,245,531	(22,285,658)	0
Change in assets held for sale	12,534,034	0		
Cash flow from acquisition of Hoechst-Biotika	0	(47,066,507)		
Cash flow from acquisition of Altisana	0	(1,642,036)		
Prepayment for Hoechst-Biotika shares			3,975,733	0
Payment for AB Endokrininiai preparatai shares				(46,137,888)
Dividends received			(3,710,102)	(4,899,196)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(521,125,346)	(50,810,185)	(22,081,265)	(51,066,267)
New emission of shares	250,527,754	19,598,293	250,527,754	19,598,293
Proceeds of long-term borrowings	268,837,897	14,748,757	(1,434,271)	14,748,757
Proceeds/ payments of short-term borrowings	(36,148,986)	4,245,803	(20,316,962)	5,420,707
Grants received	3,383,712	0	1,691,856	0
NET CASH INFLOW/(OUTFLOW) FROM FINANCING, NET	486,600,377	38,592,853	230,468,377	39,767,757
NET CASH INFLOW/OUTFLOW FROM OPERATING ACTIVITIES, INVESTING ACTIVITIES AND FINANCING	13,515,493	8,443,266	(1,443,553)	184,654
Cash and cash equivalents at 1 January	4,846,639	779,114	1,559,601	779,114
CASH AND CASH EQUIVALENTS AT 30 SEPTEMBER	18,362,132	9,222,380	116,048	963,768



## 10. Notes to the financial accounts

### NOTES TO THE CONSOLIDATED HALF-YEARLY ACCOUNTS (GROUP'S)

#### 1 Significant accounting policies

The joint stock company AB Sanitas (the Company) is domiciled in Kaunas, Lithuania. The Company's shares were listed in the Current List on the Vilnius Stock Exchange until 21 November 2005. From 21 November 2005 the shares are listed in the Official List on the Vilnius Stock Exchange.

AB Sanitas is involved in production and trade of generic medicines, namely injection preparations, tablets, capsules, galenic solutions and ointments.

In May 2004, AB Sanitas acquired a 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. From May 2004, after accession to EU, new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by Endokrininiai Preparatai and, consequently, on 15 April 2005 liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding to 67% of the shares acquiring control over the company. The liquidation was completed by the end of 2005, when final distributions were made to shareholders, the company was signed out on 28 April 2006.

In July 2004, AB Sanitas acquired a 100% interest in a limited liability company Altisana UAB, Lithuania. The subsidiary is involved in holding real estate in Kaunas, Lithuania.

In July 2005, AB Sanitas acquired a 100% interest in a limited liability company Hoechst-Biotika s.r.o, Slovakia. The subsidiary is involved in the production and trade of medicines, mainly injection preparations, tablets and ointments.

Sanitas AB established a subsidiary Sanitas Polska Sp. z.o.o in Poland on 18th of January 2006. The purpose of establishing was an acquisition of the main block of shares of polish pharmaceutical company Jelfa SA.

From 14 April 2006 Group owns 94.56% of polish pharmaceutical company Jelfa SA shares.

The new emission of Sanitas AB shares was paid up on and the new statute was registered on 11th of April 2006. According to the new statute the authorized capital of Sanitas AB is completed of 31,105,920 shares which par value is 1LTL.

Group owns 100% of shares of polish pharmaceutical company Jelfa SA from 31 July 2006.

#### Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

#### Basis of preparation

The financial statements are presented in Litas. They are prepared on the historical cost basis except that financial assets available-for-sale are stated at fair value. Non current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Company as set out below have been applied consistently by Company entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable as of 1 January 2006 which are described in Note 2.

### ***Basis of consolidation***

#### *Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### *Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases or until the associate is reclassified as held for sale.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate. If an associate is reclassified as held for sale, equity accounting is stopped and the associate is carried at the lower of the carrying amount and the fair value less cost to sell.

#### *Transactions eliminated on consolidation*

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### ***Foreign currency***

#### *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

The functional currency of the Group is Litas, except for Hoechst Biotika, the functional currency of which is the Slovak crown.

### ***Derivative financial instruments***

The Group does not have derivative financial instruments.

### ***Property, plant and equipment***

#### *Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### *Subsequent costs*

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. At recognition of replacing part or major overhaul, carrying amount of parts replaced or previous major overhaul are derecognized. All other costs are recognized in the income statement as an expense as incurred.

#### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated. The estimated useful lives are as follows:

The estimated useful lives are as follows:

- |                               |              |
|-------------------------------|--------------|
| - Buildings and constructions | 15 years     |
| - Machinery and equipment     | 5 - 10 years |
| - Vehicles                    | 5 years      |
| - Other assets                | 3 - 10 years |

Residual values and depreciation methods are reassessed for each separate

### ***Intangible assets***

#### *Goodwill*

Business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortized but is tested annually for impairment.

The excess of the Group's interest in the net fair value of an acquired company's identifiable assets, liabilities and contingent liabilities over cost arising on an acquisition is recognized directly in profit or loss.

In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

### *Other intangible assets*

Intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses.

Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

### *Subsequent expenditure*

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

### *Amortization*

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Registration of medicines and trade marks - 2-5 years
- Software - 3-4 years.

### ***Financial instruments***

#### *Investments in equity securities*

Investments in equity securities held by the Group, except for investments in subsidiaries and associates, are classified as being available-for-sale and are initially recognized at fair value plus direct cost. Subsequently, the investments are re-measured to their fair value with any resultant gain or loss being recognised directly in equity, except for impairment losses. They are included in non current assets unless management intends to dispose of the investments within 12 months of the balance sheet date. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised / derecognised by the Group on the date it commits to purchase / sell the investments.

#### *Other financial instruments*

Loans and receivables are non derivative financial assets or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

### ***Inventories***

Inventories produced and/or held for sale sold in the ordinary course of business are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Other inventories are stated at the lower of cost and fair value less cost to sell.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### ***Impairment***

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

### ***Calculation of recoverable amount***

The recoverable amount of the Groups's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### ***Reversals of impairment***

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### ***Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

### ***Dividends***

Dividends are recognised as a liability in the period in which they are declared.

### ***Revenue***

#### *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

#### *Government grants*

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

### ***Expenses***

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

#### *Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

### ***Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

### ***Segment reporting***

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### ***Non-current assets held for sale***

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

## **2 Change in accounting policies**

### *Adoption of standards effective from 1 January 2006*

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Company does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Company.

– IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company.

– IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company has not classified any instruments as at fair value through profit and loss.

– IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Company.

– IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations.

*Adoption of standards effective from 1 January 2007*

– IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Company's operations. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

**3 Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates and assumptions*

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Classification of assets held for sale*

The Group classified part of real estate as held for sale based on its intentions to sell the property within the next twelve months and active marketing of the property for sale.

*Impairment losses on receivables*

The Group reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

*Judgements*

During 2005, the Group acquired controlling interest in a subsidiary Hoechst Biotika s.r.o., Slovakia. The fair value of the net assets at acquisition was estimated as follows:

- fair value of land and buildings was estimated based on independent appraisal as at the date of acquisition using comparative values method;
- fair value of plant and equipment was estimated using a depreciated replacement cost method by an independent appraisal, since there was no reliable market-based evidence of market value because of the specialised nature of plant and equipment;
- fair value of inventories was estimated based on existing agreements with the sellers of the shares to acquire the inventories at a price equal to their cost;
- fair value of monetary items was estimated based on the present value of expected cash flows.

No additional intangible assets or contingent liabilities were recognized as a result of the business combination, taking into consideration that all product licenses, trade marks, major sales and supply



contracts of the subsidiary in force before the acquisition were cancelled or removed from disposition of the company as part of the transaction.

The Group has recognized deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits are probable.

#### 4 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments.

Segment information is presented in respect of the Group's business segments as a primary reporting format. The Company produces and distributes medicines, mainly injection preparation, tablets, eye drops, ointments and galenic solutions.

Segment information is presented in respect of the Group's geographical segments by location of customers as a secondary reporting format. The Group's sales are performed mainly in Germany, Slovakia, Poland, Latvia and Lithuania.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire tangible and intangible segment assets that are expected to be used for more than one period.

Segment information is presented in respect of the Group's business segments as a primary reporting format as follows:

LTL	INJECTION PREPARATIONS		TABLETS		OINTMENTS, EYE DROPS, TINCTURES		UNALLOCATED		TOTAL	
	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005
Revenue	41,315,015	22,849,245	27,633,738	11,844,875	25,112,589	4,144,368	423,469	5,465,650	94,484,811	44,304,138
Change, %	+80.8%		+133.3%		+505.9%		-92.3%		+113.3%	
Gross profit	11,901,743	6,530,865	7,929,061	2,816,578	13,709,893	2,450,649	122,942	-1,298,289	33,663,639	10,499,803
Change, %	+82.2%		+181.5%		+459.4%		+109.5%		+220.6%	
Operating expense	-17,358,327	-5,385,963	-15,294,612	-769,616	-19,141,820	-515,518	15,210,480	5,159,611	-36,584,279	-1,511,486
Financing cost							223,199	-168,770	223,199	-168,770
Dividends from subsidiaries							0	0	0	0
Profit before tax	-5,456,585	1,144,902	-7,365,551	2,046,961	-5,431,927	1,935,131	15,556,623	3,692,553	-2,697,440	8,819,547
Income tax							-3,372,869	1,789,113	-3,372,869	1,789,113
9 months profit	-5,456,585	1,144,902	-7,365,551	2,046,961	-5,431,927	1,935,131	18,929,492	1,903,440	675,429	7,030,434
Change, %	-576.6%		-459.8%		-380.7%		+894.5%		-90.4%	
Total assets	67,854,407	27,855,994	106,521,672	14,489,599	30,871,766	2,620,508	504,994,315	84,360,248	710,242,160	129,326,349
Total liabilities	29,789,297	11,479,311	27,756,342	12,551,555	32,360,920	1,098,443	320,985,564	54,180,483	410,892,123	79,309,792
Acquisition of non-current assets	3,394,171	152,735	2,940,970	202,272	2,798,902	690,357	3,843,450	4,301,809	12,977,493	5,347,173
Depreciation and amortisation	4,350,340	2,342,007	3,128,504	570,430	1,062,435	94,197	5,455,759	1,433,764	13,997,038	4,440,398



Segment information by geographical segments is as follows:

LTL	LATVIA		LITHUANIA		GERMANY		SLOVAKIA		POLAND	UNALLOCATED		TOTAL	
	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2006	3Q 2005	3Q 2006	3Q 2005
Revenue	16,286,271	15,764,741	10,661,057	10,014,223	10,828,510	13,813,300	9,782,365	3,878,756	24,440,975	22,485,634	833,118	94,484,811	44,304,138
Change, %	+3.3%		+6.5%		-21.6%		+152.2%		0.0%	+2599.0%		+113.3%	
Total assets by location of assets			103,230,743	58,831,189			51,016,983	70,495,160	555,994,435			710,242,160	129,326,349
Change, %			+75.5%				-27.6%		0.0%			+449.2%	
Acquisition of non-current assets			3,798,748	6,817,439			3,234,932	418,792	5,943,813			12,977,493	7,236,231

## 5 Distribution expenses

	3Q 2006	3Q 2005
	LTL	LTL
Salaries and social insurance	6,840,389	431,921
Advertising	5,494,457	538,274
Marketing services	7,004,399	34,464
Amortisation	241,035	67,694
Transportation expenses	1,044,282	18,407
Depreciation	555,024	25,367
Other	9,818,006	444,403
	<b>30,997,593</b>	<b>1,560,530</b>

## 6 Administrative expenses

	3Q 2006	3Q 2005
	LTL	LTL
Salaries and social insurance	6,318,734	1,897,699
Depreciation	965,532	948,831
Advisory services	670,686	283,470
Maintenance materials	591,764	212,883
Property taxes	234,560	264,418
Utilities	304,542	164,121
Security services	189,135	169,971
Business trips	460,492	154,546
Repair of premises	97,317	
Communication expenses	286,540	56,605
Redundancy payments	2,538,144	48,796
Amortization	128,764	16,705
Rent	259,051	
Other	5,553,165	1,077,363
	<b>18,598,424</b>	<b>5,295,408</b>

**7 Other operating income and expenses**

	3Q 2006	3Q 2005
	LTL	LTL
OTHER OPERATING INCOME:		
Proceeds from sales of non current assets	13,069,592	73,521
Proceeds of services rendered	1,148,403	337,327
Rent and utilities income	237,434	629,870
Proceeds from sales of materials, spare parts	1,215,862	246,766
Decrease of hopeless receivables	527,034	366,594
Other services	2,231,150	4,113,197
<b>TOTAL OTHER OPERATING INCOME</b>	<b>18,429,475</b>	<b>5,767,275</b>
OTHER OPERATING EXPENSE:		
Cost of current assets sold	74,719	60,401
Cost of services rendered	183,075	284,430
Loss on disposal of tangible non current assets	1,588,698	77,991
Increase of hopeless receivables	351,058	
Others	3,220,187	
<b>TOTAL OTHER OPERATING EXPENSE</b>	<b>5,417,737</b>	<b>422,822</b>
<b>PROFIT/ LOSS FROM OTHER ACTIVITIES</b>	<b>13,011,738</b>	<b>5,344,453</b>

**8 Financial income and expenses**

	3Q 2006	3Q 2005
	LTL	LTL
FINANCIAL INCOME:		
Delays and fines received	152,046	447,892
Interest income	23,675	15,198
Foreign exchange gain	3,920,742	125,199
Other	8,374,915	39,163
<b>Total financial income</b>	<b>12,471,377</b>	<b>627,452</b>
FINANCIAL EXPENSES:		
Delays and fines paid	118,197	
Interest on borrowings	10,102,715	637,052
Foreign exchange loss	2,234,837	1,847
Other	(207,572)	157,324
<b>TOTAL FINANCIAL EXPENSES</b>	<b>12,248,178</b>	<b>796,223</b>
<b>RESULT OF FINANCIAL ACTIVITIES</b>	<b>223,200</b>	<b>(168,771)</b>

**9 Corporate income tax expenses**

	3Q 2006	3Q 2005
	LTL	LTL
CURRENT TAX EXPENSE		
Current tax	3,385,009	1,789,113
DEFERRED TAX EXPENSE		
Occurrence and realization of temporary differences	(6,757,878)	
<b>TOTAL INCOME TAX EXPENSE</b>	<b>(3,372,869)</b>	<b>1,789,113</b>

The reconciliation of effective tax rate is as follows:

LTL	3Q 2006		3Q 2005	
Result before tax		(2,697,440)		8,819,547
Income tax using effective tax rate	19.00%	(512,514)	16.56%	1,460,810
Delays and fines received	0.00%	0	0.00%	0
Disposal of tangible fixed assets	0.31%	(8,491)	0.00%	0
Write down of inventories	(0.07)%	1,839	0.06%	5,168
Over normative expenditure of material	(0.31)%	8,455	0.06%	5,725
Subsidiary's costs	28.60%	(771,398)	0.00%	0
Tax corrections for previous periods	52.25%	(1,409,512)	0.00%	0
Corrections related to loss of subsidiaries	(226.98)%	6,122,521	0.05%	4,277
Other	(1.47)%	39,602	3.55%	313,133
Increase of value of non current assets	3.17%	(85,493)	0.00%	0
	<b>(125.49)%</b>	<b>3,385,009</b>	<b>20.29%</b>	<b>1,789,113</b>

The calculation of the deferred tax can be specified as follows:

LTL	3Q 2006		3Q 2005	
	Temporary diff.	Deferred tax (18-19%)	Temporary diff.	Deferred tax (15%)
Impairment of receivables	232,720	43,447	387,335	58,100
Accrued expense	412,501	78,375	86,000	12,900
Deductible temporary differences on fixed assets	2,692,732	511,619	0	0
Net balance on September 30	3,337,953	633,441	473,335	71,000

According to the amended tax legislation, during the period from 1 January 2006 to 31 December 2007, companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred tax as at 30 September 2006 was calculated using the effective rates of 19% and 18% for the temporary differences that will reverse in 2006 and 2007 respectively. The deferred tax of the subsidiary in Slovakia was calculated applying 19% effective tax rate.

## 10 Staff costs

	3Q 2006	3Q 2005
	LTL	LTL
Wages and social security contributions in production costs	14,411,915	3,940,230
Salaries and social security costs in selling expenses	6,840,389	431,921
Salaries and social security costs administrative	6,318,734	1,897,699
Redundancy payments in administration expenses	930,905	48,796
	<b>28,501,943</b>	<b>6,318,646</b>

Staff costs include wages and salaries and emoluments for the management (General Director, Chief Financial Officer, Production Director, Sales Director, Procurement Director, Head of Quality Assurance, Chief Engineer, Head of Legal and General Affairs Division, Chief Accountant, Project Director, Head of Commercial operations, Purchasing and logistics Director, Head of business development), of 1 306 673 litas (3Q 2005 – 681 261 litas).

At the end of third quarter 2006, the Group employed 1,497 employees (at the end of third quarter of 2005 – 522 employees).

**11 Property, plant and equipment**

LTL	Land	Buildings	Machinery and equipment	Vehicles and other assets	Construction in progress	Total
Cost as at 01 01 2005	0	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Acquisition of subsidiary Hoechst Biotika	821,404	22,768,437	11,043,832	1,298,865	12,400	35,944,937
Additions	0	0	1,344,673	259,979	7,201,779	8,806,431
Disposals	0	0	(537,541)	(78,417)	0	(615,959)
Effect of movements in foreign exchange rates	5,682	157,507	76,399	8,985	86	248,660
Cost as at 30 09 2005	827,086	44,864,928	32,580,255	2,257,063	8,610,595	89,139,928
Depreciation as at 01 01 2005	0	4,237,466	12,679,356	387,951	0	17,304,773
Depreciation during the period	0	1,232,578	2,949,108	138,713	0	4,320,400
Disposals	0	0	(500,905)	(56,734)	0	(557,639)
Effect of movements in foreign exchange rates	0	(3,567)	(3,802)	(570)	0	(7,939)
Depreciation as at 30 09 2005	0	5,466,477	15,123,757	469,361	0	21,059,595
<b>NET BOOK VALUE AT 30 09 2005</b>	<b>827,086</b>	<b>39,398,451</b>	<b>17,456,498</b>	<b>1,787,702</b>	<b>8,610,595</b>	<b>68,080,333</b>
Cost as at 30 09 2005	827,086	44,864,928	32,580,255	2,257,063	8,610,595	89,139,928
Additions	0	13,699,729	204,664	193,496	5,223,064	19,320,953
Disposals	0	(25,094,957)	(2,456,755)	(158,118)	(5,057,022)	(32,766,851)
Reclassified to assets held for sale	0	(8,891,475)	0	0	0	(8,891,475)
Reversal of impairment	0	0	0	0	196,613	196,613
Other reclassifications	0	0	0	(45,792)	(12,816)	(58,608)
Effect of movements in foreign exchange rates	21,902	596,507	283,142	32,503	10,345	944,399
Cost as at 31 12 2005	848,988	25,174,733	30,611,306	2,279,152	8,970,779	67,884,958
Depreciation as at 30 09 2005	0	5,466,477	15,123,757	469,361	0	21,059,595
Depreciation during the period	0	873,049	1,484,660	194,062	0	2,551,772
Disposals	0	(4,555,819)	(1,919,168)	(175,056)	0	(6,650,043)
Reclassified to assets held for sale	0	(691,559)	0	0	0	(691,559)
Effect of movements in foreign exchange rates	0	898	913	240	0	2,051
Depreciation as at 31 12 2005	0	1,093,046	14,690,162	488,607	0	16,271,816
<b>NET BOOK VALUE AT 31 12 2005</b>	<b>848,988</b>	<b>24,081,687</b>	<b>15,921,144</b>	<b>1,790,545</b>	<b>8,970,779</b>	<b>51,613,143</b>
Cost as at 01 01 2006	848,988	25,174,733	30,611,306	2,279,152	8,970,779	67,884,958
Acquisition of subsidiary Jelfa	174,479	154,442,158	70,982,040	14,773,239	1,967,771	242,339,688
Additions	0	356,634	1,486,232	970,366	8,911,301	11,724,532
Disposals	0	(7,003)	(1,168,737)	(320,109)	(1,703,646)	(3,199,495)
Other reclassifications	0	0	943,644	945,461	0	1,889,105
Effect of movements in foreign exchange rates	7,975	(1,409,737)	(647,057)	(145,087)	(21,330)	(2,215,236)
Cost as at 30 06 2006	1,031,443	178,556,785	102,207,428	18,503,022	18,124,876	318,423,553
Depreciation as at 01 01 2006	0	1,093,046	14,690,162	488,607	0	16,271,816
Depreciation during the period	0	3,825,530	7,217,550	1,906,573	0	12,949,653
Disposals	0	(505)	(75,868)	350,853	0	274,480
Effect of movements in foreign exchange rates	0	10,218	7,520	614	0	18,351
Depreciation as at 30 09 2006	0	4,928,289	21,839,364	2,746,647	0	29,514,300
<b>NET BOOK VALUE AT 30 09 2006</b>	<b>1,031,443</b>	<b>173,628,496</b>	<b>80,368,064</b>	<b>15,756,375</b>	<b>18,124,876</b>	<b>288,909,253</b>

### Leased property, plant and equipment

As at 30 September 2006, the Company has equipment with a carrying amount of Litas 3,683,567 and vehicles with a carrying amount of Litas 998,852 leased under financial leasing contracts (where the Company is a lessee).

As at 30 September 2006, the Company has no assets leased under operational lease contracts (where the Company is a lessor).

Sanitas AB on 30 September 2006 rented place for industrial, manufacturing, storage and administrative rooms (altogether 11,703.95 square meters) from UAB Laikinosios sostinės projektai.

### Pledges

As at 30 September 2006, buildings and equipment with a carrying amount of Litas 88,134,935 are pledged for the bank loans (refer to Note 21).

### Depreciation

Depreciation of tangible assets has been allocated as follows:

	3Q 2006	3Q 2005
	LTL	LTL
Production costs	11,429,097	3,346,202
Administrative expenses	965,532	948,831
Distribution expenses	555,024	25,367
<b>Total</b>	<b>12,949,653</b>	<b>4,320,400</b>

## 12 Intangible fixed assets

LTL	Registration certificates, licenses	Software, etc.	Total
Acquisition value as at 01 01 2005	346,397	305,215	651,612
Acquisition of subsidiary Hoechst Biotika	0	109,006	109,006
Additions during the period	20,127	49,676	69,803
Disposal	(49,246)	0	(49,246)
Foreign exchange difference	0	754	754
Acquisition value as at 30 09 2005	317,278	464,651	781,929
Amortization as at 01 01 2005	168,676	237,900	406,576
Amortization for the period	68,100	41,711	109,811
Disposal	(40,132)	(9,107)	(49,239)
Foreign exchange difference	0	(225)	(225)
Amortization as at 30 09 2005	196,644	270,279	466,923
<b>NET BOOK VALUE AT 30 09 2005</b>	<b>120,634</b>	<b>194,372</b>	<b>315,006</b>
Acquisition value as at 30 09 2005	317,278	464,651	781,929
Additions during the period	20,074	655,847	675,921
Disposal	(34,655)	(40,120)	(74,775)
Foreign exchange difference	0	3,315	3,315
Acquisition value as at 31 12 2005	302,697	1,083,694	1,386,391
Amortization as at 30 09 2005	196,644	270,279	466,923
Amortization for the period	22,487	48,619	71,106
Disposal	(24,009)	(43,285)	(67,294)
Foreign exchange difference	0	64	64
Amortization as at 31 12 2005	195,122	275,678	470,800
<b>NET BOOK VALUE AT 31 12 2005</b>	<b>107,575</b>	<b>808,016</b>	<b>915,591</b>

Continued

	Registration certificates, licenses	Software, etc.	Total
Acquisition value as at 31 12 2005	302,697	1,083,694	1,386,391
Acquisition of subsidiary Jelfa	5,491,495	9,019,672	14,511,167
Additions during the period	1,117,751	135,210	1,252,961
Disposal	(332,280)	(192,066)	(524,346)
Other reclassifications	1,188,576	(68,141)	1,120,435
Foreign exchange difference	(59,526)	(89,209)	(148,735)
Acquisition value as at 30 09 2006	7,708,712	9,889,160	17,597,873
Amortization as at 31 12 2005	195,122	275,678	470,800
Amortization for the period	254,906	792,480	1,047,386
Disposal	(223,015)	(192,066)	(415,080)
Other reclassifications	(17,466)	17,466	0
Foreign exchange difference	(259)	385	126
Amortization as at 30 09 2006	209,288	893,943	1,103,231
<b>NET BOOK VALUE AT 30 09 2006</b>	<b>7,499,424</b>	<b>8,995,217</b>	<b>16,494,641</b>

Amortization of intangible assets has been allocated as follows:

	3Q 2006	3Q 2005
	LTL	LTL
Amortization in production expenses	677,587	25,412
Distribution expenses	241,035	67,694
Administrative expenses	128,764	16,705
<b>TOTAL</b>	<b>1,047,386</b>	<b>109,811</b>

### 13 Investments

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Jelfa shares (9,99% shares)		38,503,285	
Ośrodek Informacji Naukowej shares	4,339		
Prepayment for Hoechst-Biotika shares			
UAB Altisana shares (100% shares)			
AB Endokrininiai preparatai shares (66% shares) in current assets			7,898,941
Other	13,017,300		226,537
<b>TOTAL INVESTMENTS</b>	<b>13,021,639</b>	<b>38,503,285</b>	<b>8,125,478</b>

#### Jelfa

AB Sanitas participates in a privatization tender of a pharmaceutical company Jelfa, Poland. The Company, while planning to acquire control over Jelfa, in October – December 2005 acquired 569,875 shares or 8.38% on the Warsaw Stock Exchange.

At initial recognition, the investment in the shares was stated at fair value of Lit 40,292,842 plus direct costs of Lit 1,966,336 (comprising of brokerage commissions and success fees).

The investment was re-measured to fair value using the average transaction price as per the Warsaw Stock Exchange as at 31 December 2005. The quoted price was of 75.40 PLN or 67.57 Lit per share.

The effect of the re-measurement of the investments to their fair value as at 31 December 2005 was as follows:

INVESTMENT IN JELFA, POLAND	LTL
Acquired 569,875 shares of Jelfa (8.38%)	40,292,845
Direct costs	1,966,336
Value of the investment at initial recognition	42,259,181
Adjustment at subsequent re-measurement to the market value of the shares	(3,755,896)
<b>CARRYING AMOUNT OF THE SHARES AS AT 31 DECEMBER 2005</b>	<b>38,503,285</b>

The loss on subsequent re-measurement of Litas 3,042,276 after deduction of deferred tax income of Litas 713,620 was recognized in the equity.

On February 2006 AB Sanitas increased its holding in Jelfa up to 9.99% of shares.

On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for acquisition of 90.01% of shares at a price of 93 PLN per share. During the official offer 5,750,190 or 84.56% of shares were acquired.

Group owned 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Group owns 100% of shares of polish pharmaceutical company Jelfa SA from 31 July 2006.

Jelfa SA data is included in the consolidated financial statements from 1 June 2006.

*Ośrodek Informacji Naukowej*

Jelfa SA investments in Osrodek informacji Naukowej as at 30 September 2006 was 4,339 LTL.

#### 14 Assets held for sale

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Real estate in Veiverių str., Kaunas	8,199,916	8,199,916	0
<b>TOTAL</b>	<b>8,199,916</b>	<b>8,199,916</b>	<b>0</b>

#### *Real estate held for sale*

In September 2005, the company concluded a preliminary sale-purchase agreement concerning real estate located in Veiveriu str., Kaunas. In accordance with this agreement the company received a prepayment of Litas 800 thousand. A sale is expected in 2006. The fair value less cost to sell of the real estate held for sale was estimated by reference to an independent appraisal as well as the existing preliminary agreement. The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), which exceeds the carrying amount of the property as at 31 December 2005 and 30 September 2006. Consequently, the real estate is stated at its carrying amount before the reclassification to the assets held for sale at the end of 2005.

#### 15 Inventories

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Finished goods	29,941,265	2660889	2,714,557
Raw material	23,300,222	6931155	7,161,040
Work in progress	6,125,611	1322849	1,782,621
Goods for resale	1,444,223	583251	897,649
	<b>60,811,320</b>	<b>11,498,144</b>	<b>12,555,867</b>

At 30 September 2006, there were inventories carried at fair value less cost to sell (8,773,300 litas). 31 12 2005 and 30 09 2005 - there were no inventories carried at fair value less cost to sell.



**16 Trade receivables**

	<b>30 09 2006</b>	<b>31 12 2005</b>	<b>30 09 2005</b>
	<b>LTL</b>	<b>LTL</b>	<b>LTL</b>
Net carrying amount	47,254,296	13,806,634	32,440,682

**17 Other receivables**

	<b>30 09 2006</b>	<b>31 12 2005</b>	<b>30 09 2005</b>
	<b>LTL</b>	<b>LTL</b>	<b>LTL</b>
Refundable VAT	2,720,684	922,428	811,422
Deferred charges	2,005,613	234,376	387,218
Other receivables	1,346,807	178,044	73,652
	6,073,103	1,334,848	1,272,292

**18 Cash and cash equivalents**

	<b>30 09 2006</b>	<b>31 12 2005</b>	<b>30 09 2005</b>
	<b>LTL</b>	<b>LTL</b>	<b>LTL</b>
Cash at bank	18,298,641	4,814,385	9,159,922
Cash in hand	63,490	4,510	62,458
<b>Cash and cash equivalents</b>	<b>18,362,132</b>	<b>4,846,639</b>	<b>9,222,380</b>

**19 Capital and reserves****Share capital**

In July 2005, 408,941 shares with a nominal value of 5 Litas per share were issued at 50.50 Litas per share. The share capital was increased by Litas 19,598,293, including the share premium of Litas 17,553,588 (net of the transaction costs of Litas 1,053,228).

As at 30 September 2006, the Company's share capital comprised of 2,200,000 ordinary shares with a nominal value of 5 Litas each. The nominal value of the capital registered amounted to 11,000,000 Litas.

In November 2005, the shares were split to 5 shares with a nominal value of 1 Litas per share from 1 share of 5 Litas in issue.

As at 31 December 2005, the Company's share capital comprised of 11,000,000 ordinary shares with a nominal value of 1 Litas per share. The nominal value of the capital registered amounted to Litas 11,000,000.

In April 2006, 20,105,920 shares with a nominal value of 1 Litas per share were issued at 13 Litas per share. The share capital was increased by Litas 250,527,754, including the share premium of Litas 230,421,834.

As at 30 September 2006, the Company's share capital comprised of 31,105,920 ordinary shares with a nominal value of 1 Litas per share.

The share capital was fully paid as at 30 September 2005, 31 December 2005 and 30 September 2006.

The holders of the ordinary shares are entitled to one vote per share in the shareholders meeting of the Company and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the share capital.

**Legal reserve**

The legal reserve in the amount of 3,110,592 Litas is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorized capital. The legal reserve can only be used to cover losses.

### Fair value reserve

Investments in equity securities held by the Company, except for investments in subsidiaries and associates, are stated at fair value, with any resultant gain or loss on re-measurement to fair value being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 13) of Litās 3,755,896 less related deferred tax income of Litās 713,620 (see note 9). The net fair value reserve is a deduction from the equity as at 31 December 2005 and amounts to Litās 3,042,276. The cost price of Jelfa's shares was valued on 31st of March 2006 and the real loss of shares revaluation was recalculated (look at clarification no. 13).

### Other reserves

The Company had no other reserves as at 31 December 2005 and 30 June 2006. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

### 20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares. The number of shares issued in 2005 is adjusted by the change in the nominal value of the company's ordinary registered shares from 5 LTL to 1 LTL and swapping each ordinary registered share of the nominal value of 5 LTL to 5 (five) ordinary registered shares of the nominal value of 1 LTL in November 2005.

	3Q 2006	3Q 2005
	LTL	LTL
Shares issued as at 1 January	11,000,000	1,791,059
Shares issued in April 2006	20,105,920	0
Shares issued as at 30 September before the share split adjustment	31,105,920	1,791,059
Shares issued as at 30 September, adjusted for the share split	31,105,920	8,955,295
Average weighted number of shares in issue	2,440,394	9,636,863
Net profit for the 9 months	675,429	7,030,434
<b>EARNINGS PER SHARE</b>	<b>0.03</b>	<b>0.73</b>

### 21 Interest bearing loans and borrowings

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
<b>NON-CURRENT LIABILITIES</b>			
Credit line facility from Sampo Bankas	0	0	1 601 237
Loan from Sampo Bankas	0	0	26 200 074
Credit line facility from SEB Vilniaus Bankas	4 051 220	4 803 147	0
SEB Vilniaus Bankas loans	13 919 207	16 362 025	0
Loan from Bank Pekao SA	22 506 280	0	0
Loan from Bank Pekao SA and BZ WBK	271 063 685	0	0
Financial leasing	4 863 081	244 172	647 658
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>316 403 473</b>	<b>21 409 344</b>	<b>28 448 969</b>
<b>CURRENT LIABILITIES</b>			
Loan from associate AB Endokrininiai Preparatai	0		5,283,088
SEB Vilniaus Bankas credit facility	0	4,190,722	0
SEB Vilniaus Bankas loans	654,555	16,472,940	1,000,050
Loan from Bank Pekao SA	9,002,522	0	0
Loan from Nordea Bank Finland Plc	43,492	0	0
Bank Pekao SA credit facility	3,106,767	0	0

Continued

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
FBC AB Finasta, UAB Nenuorama loans	0	15,480,065	0
Loan from Tatra Bank	12,854,177	17,275,530	10,672,080
Financial leasing	2,134,066	401,988	96,633
<b>TOTAL CURRENT LIABILITIES</b>	<b>27,795,579</b>	<b>53,821,245</b>	<b>17,051,851</b>
<b>TOTAL INTEREST BEARING BORROWINGS</b>	<b>344,199,052</b>	<b>75,230,589</b>	<b>45,500,820</b>

## Terms and repayment schedule of interest bearing borrowings

	Total	2006	2007	2008	2009
SEB Vilniaus Bankas, loan in Litas, bearing variable interest at 6 months EURLIBOR + 1.05%	6,981,939	654,555	2,618,220	2,618,220	1,090,944
SEB Vilniaus Bankas, loan in Litas - variable interest at 6 months EURLIBOR + 1.32%, having finished the construction of plant and having pledged it - EURLIBOR + 1.05%	7,591,823		2,094,908	2,285,355	3,211,560
SEB Vilniaus Bankas, credit facility in EUR and LTL bearing variable interest at 6 months EURLIBOR + 1.05%	4,051,220			4,051,220	
A credit line of Tatra Bankas of 200,000 000 SKK with 1M BRIBOR+1.20 % interest	12,854,177	12,854,177			
Bank Pekao SA loan in PLN – variable interest at 3 months WIBOR + 0.32	31,508,802	2,250,630	9,002,522	9,002,522	11,253,128
Bank Pekao SA and BZ WBK loan in PLN – variable interest at 3 months WIBOR + 1.75	271,063,685		29,042,538	38,723,383	38,723,383
A credit line of Bank Pekao SA in PLN - variable interest at 1 month WIBOR + 0.4	3,106,767	3,106,767			
Nordea Bank Finland Plc loan	43,492	43,492			
Sampo Bankas, leasing for acquisition of equipment for testing of tightness of ampoule preparations, variable interest at 6 months EURIBOR +1.9%	254,944	84,034	170,910		
Sampo Bankas, finance leasing of 4 cars, variable interest at 6 months EURIBOR +1.9%	51,982	10,808	41,174		
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.7%	39,282	7,194	32,088		
Sampo Bankas, finance leasing of used equipment variable interest at 6 months EURIBOR +1.4%	943,998	97,561	315,611	330,683	200,143
Sampo Bankas, finance leasing of used equipment variable interest at 6 months EURIBOR +1.4%	890,732	106,970	282,262	296,090	205,410
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.2%	141,300	11,025	45,420	47,630	37,225
Hoechst–Biotika finance leasing for acquisition of cars, server, equipment – fixed payments and variable interest	2,506,984	161,864	647,458	647,458	637,357

Continued

	Total	2006	2007	2008	2009
Jelfa SA finance leasing for acquisition of 44 cars and server– fixed payments and variable interest	2,167,924	410,135	1,068,151	478,504	211,133
<b>Total</b>	<b>344,199,052</b>	<b>19,799,213</b>	<b>45,361,262</b>	<b>58,481,065</b>	<b>55,570,283</b>

According to the loan agreement with SEB Vilniaus Bankas, the Company has unutilized Litas 20,997 thousand of a loan in Litas with variable interest of EURLIBOR plus 1.05 per cent margin, maturing in 2015. The purpose of the loan is for the financing of the construction of a new production plant.

In accordance with the loan agreements with SEB Vilniaus Bankas, the bank's permission is required for guarantees issued to any third party; selling or renting assets of more than Litas 1,000 thousand during one year; loans received from related parties of more than Litas 5,000 thousand; loans received of more than Litas 1,000 thousand from other parties; loans issued. According to the mentioned agreements, The Company obliged to keep ratio between financial liabilities and EBITDA not higher than 5.5 during 2005; 5.0 during the 1<sup>st</sup> half of 2006; 4.0 during the 2<sup>nd</sup> half of 2006; 3.0 during 2007; 2.5 from 2008.

## 22 Grants

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement on grant for financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is reimbursed after actual expenses on construction are incurred. By 30 September 2006, the Company has received grant of Litas 3,107,280. The expected compensation of construction costs during 2006 -2007 amounts to Litas 13,049,871.

## 23 Other creditors

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Taxes, salaries and social insurance payable	4,045,394	2,121,250	1,440,364
Vacation reserve	6,966,532	533,818	39,457
Accrued volume discounts to customers	431,179	423,192	21,593
Payable for real estate			
Other payables and accrued charges	14,426,160	638,588	10,330,366
	<b>25,869,265</b>	<b>3,716,848</b>	<b>11,831,780</b>

## 24 Contingencies

As at 30 September 2006, buildings and equipment with a carrying amount of 88,134,935 Litas were pledged to secure the bank loans (refer to Note 18). Besides, investments of 43,984,960 Litas in Hoechst – Biotika, 557,682,181 Litas in Jelfa and 64,526 Litas cash in SEB Vilniaus bankas as at 30 September 2006 were pledged to secure those loans as well.

## 25 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on major shareholders on page 9), entities under common control with the Company, the Company's subsidiaries Altisana, Hoechst-Biotika and Sanitas Polska, members of the key management personnel of the mentioned companies, as well as close members of the family of the mentioned individuals.

The related party transactions in 9 months of 2006 were as follows (LTL):

SALES TO SUBSIDIARIES		
UAB Atisana	Interest	3,964
Sanitas Polska	Interest	4,702,276
Hoechst – Biotika	Services	38,475
Jelfa	Services	26,945
SALES TO ENTITY UNDER COMMON CONTROL WITH AB SANITAS SHAREHOLDERS:		
UAB Invalda Construction Management	Services	27,175
<b>TOTAL</b>		<b>4,771,890</b>
PURCHASES FROM SUBSIDIARIES		
Hoechst – Biotika	Pharmaceuticals	1,621,948
Hoechst – Biotika	Interest	528,100
UAB Altisana	Rent	208,000
UAB Altisana	Interest	205,569
PURCHASES FROM ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
UAB Invalda Real Estate	Services	143,061
FBC AB Finasta	Services	25,097
FBC AB Finasta	Commission	100,700
FBC AB Finasta	Purchase of Jelfa shares	8,724,850
FBC AB Finasta	Interest	61,696
FBC AB Finasta	Agency fee	158,282
UAB Laikinosios sostinės projektai	Rent	258,323
UAB Valmeda	Rent	990
PURCHASES FROM ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS		
UAB Nenuorama	Interest	247,858
<b>TOTAL</b>		<b>11,919,633</b>
PAYABLE TO SUBSIDIARY:		
Hoechst – Biotika	Loan	11,078,474
Hoechst – Biotika	Goods and services	1,057,352
UAB Altisana	Loan	9,636,562
PAYABLE TO ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
FBC AB Finasta	Services	6,375
PAYABLE TO ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS:		
UAB Nenuorama	Interest	0
<b>TOTAL</b>		<b>21,778,763</b>
RECEIVABLE FROM SUBSIDIARY:		
Sanitas Polska	Loan	223,145,740
Sanitas Polska	Interest	4,702,276
<b>TOTAL</b>		<b>227,848,016</b>

Amounts paid to the management are disclosed in note 10.

## 26 Foreign currency

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Company's operations.

### Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there were no significant concentrations of credit risk.



### **Foreign exchange risk**

The Company's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars and Poland Zlotych. No financial instruments are used to hedge against the risk, as it is not considered to be significant.

### **Liquidity risk**

The Company's policy is to maintain sufficient cash and cash equivalents and/or have available funding through an adequate amount of committed credit facilities. The Company intends to raise additional equity financing through issue of shares of AB Sanitas in 2006.

### **Interest rate risk**

Most of the Company's borrowings are subject to variable interest rates, related to LIBOR, WIBOR and EURIBOR. The Company also has some short term borrowings from related parties at fixed interest rates, as specified in notes 21 and 25.

The Company did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

## NOTES TO THE HALF-YEARLY ACCOUNTS (AB SANITAS)

### 1 Significant accounting policies

The joint stock company AB Sanitas (the Company) is domiciled in Kaunas, Lithuania. The Company's shares were listed in the Current List on the Vilnius Stock Exchange until 21 November 2005. From 21 November 2005 the shares are listed in the Official List on the Vilnius Stock Exchange.

AB Sanitas is involved in production and trade of generic medicines, namely injection preparations, tablets, capsules, galenic solutions and ointments.

In May 2004, AB Sanitas acquired a 40% interest in a limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in the production of pharmaceutical preparations. From May 2004, after accession to EU, new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory periods allowed. The relevant certifications were not acquired by Endokrininiai Preparatai and, consequently, on 15 April 2005 liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding to 67% of the shares acquiring control over the company. The liquidation was completed by the end of 2005, when final distributions were made to shareholders, the registration was cancelled on 28 April 2006.

In July 2004, AB Sanitas acquired a 100% interest in a limited liability company Altisana UAB, Lithuania. The subsidiary is involved in holding real estate in Kaunas, Lithuania.

In July 2005, AB Sanitas acquired a 100% interest in a limited liability company Hoechst-Biotika s.r.o, Slovakia. The subsidiary is involved in the production and trade of medicines, mainly injection preparations, tablets and ointments.

Sanitas AB established a subsidiary Sanitas Polska Sp. z.o.o in Poland on 18th of January 2006. The purpose of establishing was an acquisition of the main block of shares of polish pharmaceutical company Jelfa SA.

The new emission of Sanitas AB shares was paid up on and the new statute was registered on 11th of April 2006. According to the new statute the authorized capital of Sanitas AB is completed of 31,105,920 shares which par value is 1LTL.

Group owned 95,25% of shares of polish pharmaceutical company Jelfa SA from 30 June 2006.

Group owns 100% of shares of polish pharmaceutical company Jelfa SA from 31 July 2006.

### Statement of compliance

These financial statements are separate financial statements of the parent company AB Sanitas and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), further to the IAS Regulation (EC 1606/2002).

### Basis of preparation

The financial statements are presented in Litas. They are prepared on the historical cost basis except that financial assets available-for-sale are stated at fair value. Non current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3.

The accounting policies of the Company as set out below have been applied consistently by Company entities and are consistent with those of the preceding year, except as a result of change in accounting policies resulting from amendments to existing IFRSs and the introduction of new IFRSs applicable from 1 January 2006 which are described in Note 2.

### ***Investments in subsidiaries and associates***

In the separate financial statements of the parent company, investments in subsidiaries and associates are stated at cost less impairment, if any.

### ***Foreign currency***

#### *Foreign currency transactions*

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

#### *Derivative financial instruments*

The Company does not have derivative financial instruments.

### ***Property, plant and equipment***

#### *Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

#### *Leased assets*

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### *Subsequent costs*

The Company recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item or major overhaul when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. At recognition of replacing part or major overhaul, carrying amount of parts replaced or previous major overhaul are derecognised. All other costs are recognised in the income statement as an expense as incurred.



### *Depreciation*

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and construction in progress are not depreciated. The estimated useful lives are as follows:

The estimated useful lives are as follows:

- Buildings and constructions 15 years
- Machinery and equipment 5 - 10 years
- Vehicles 5 years
- Other assets 3 - 10 years

Useful lives – 1 litas. Residual values and depreciation methods are reassessed for each separate.

### ***Intangible assets***

Intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and impairment losses.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

#### *Subsequent expenditure*

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### *Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Registration of medicines and trade marks - 2-5 years
- Software - 3-4 years.

### ***Financial instruments***

#### *Investments in equity securities*

Investments in equity securities held by the Company, except for investments in subsidiaries and associates, are classified as being available-for-sale and are initially recognized at fair value plus direct cost. Subsequently, the investments are re-measured to their fair value with any resultant gain or loss being recognised directly in equity, except for impairment losses. They are included in non current assets unless management intends to dispose of the investments within 12 months of the balance sheet date. When these investments are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

The fair value of financial instruments classified as available for sale is their quoted bid price at the balance sheet date.

Financial instruments classified as available-for-sale investments are recognised / derecognised by the Company on the date it commits to purchase / sell the investments.

#### *Other financial instruments*

Loans and receivables are non derivative financial assets or determinable payments that are not quoted in an active market. They are included in current assets except for maturities greater than 12 months. Trade receivables are initially recognized at fair value. Loans and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset.

Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less impairment, if any. Short-term receivables are not discounted.

Borrowings are initially recognized at fair value less direct costs related to occurrence of respective loan and other liabilities. Subsequent to initial recognition, liabilities are stated at amortized cost on an effective interest method basis. Trade payables are initially recognized at fair value and are subsequently measured at amortised cost. Short-term liabilities are not discounted.

### ***Inventories***

Inventories produced and/or held for sale sold in the ordinary course of business are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Other inventories are stated at the lower of cost and fair value less cost to sell.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### ***Impairment***

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

### ***Calculation of recoverable amount***

The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

### *Reversals of impairment*

An impairment loss in respect of receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

Impairment loss in respect of other assets is reversed only if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### ***Repurchase of share capital***

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

### ***Dividends***

Dividends are recognised as a liability in the period in which they are declared.

### ***Revenue***

#### *Goods sold and services rendered*

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. The revenue recognized is net of discounts provided. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods also continuing management involvement with the goods.

#### *Government grants*

A government grant is recognised in the balance sheet initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recognised in the income statement as other operating income on a systematic basis over the useful life of the asset.

### ***Expenses***

#### *Operating lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

#### *Finance lease payments*

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### *Net financing costs*

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested, dividend income, foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

### ***Income tax***

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: for initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

### ***Segment reporting***

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

### ***Non-current assets held for sale***

A non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement.

## **2 Change in accounting policies**

### *Adoption of standards effective from 1 January 2006*

– IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006). This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. As the Company does not participate in any defined benefit plans, Management considered this amendment to IAS 19 and concluded that it is not relevant to the Company.

- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). Management considered this amendment to IAS 39 and concluded that it is not relevant to the Company.
- IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006). This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company has not classified any instruments as at fair value through profit and loss.
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006). Management considered this amendment to IAS 39 and IFRS 4 and concluded that it is not relevant to the Company.
- IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Company's operations.

#### *Adoption of standards effective from 1 January 2007*

- IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. Management is currently assessing the impact of IFRS 7 and amendment to IAS 1 on the Company's operations. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.

### **3 Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Critical accounting estimates and assumptions*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Impairment losses on receivables*

The Company reviews its receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Company makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of receivables before the decrease can be identified with an individual receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of debtors in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

#### *Judgments*

The Company has recognized deferred tax assets based on the judgment of management that realization of the related tax benefits through future taxable profits are probable.



#### 4 SEGMENT REPORTING

Segment information is presented in respect of the Company's business and geographical segments.

Segment information is presented in respect of the Company's business segments as a primary reporting format. The Company produces and distributes medicines, mainly injection preparation, tablets, eye drops, ointments and galenic solutions.

Segment information is presented in respect of the Company's geographical segments by location of customers as a secondary reporting format. The Company's sales are performed mainly in Latvia and Lithuania.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire tangible and intangible segment assets that are expected to be used for more than one period

Segment information is presented in respect of the Company's business segments as a primary reporting format as follows:

LTL	INJECTION PREPARATIONS		TABLETS		OINTMENTS, EYE DROPS, TINCTURES		UNALLOCATED		TOTAL	
	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005
Revenue	17,183,071	18,141,287	4,929,734	4,460,035	2,182,655	3,758,985	454	3,200	24,295,914	26,363,507
Change, %	-5.3%		+10.5%		-41.9%		-85.8%		-7.8%	
Gross profit	7,981,821	6,420,722	3,045,620	2,226,929	1,064,387	2,419,878	454	2,316	12,092,282	11,069,845
Change, %	+24.3%		+36.8%		-56.0%		-80.4%		+9.2%	
Operating expense	-5,677,548	-5,226,602	-907,749	-519,645	-473,229	-502,473	977,654	602,065	-6,080,872	-5,646,655
Financing cost							3,217,672	-50,608	3,217,672	-50,608
Dividends from subsidiaries							3,975,733		3,975,733	
Profit before tax	2,304,273	1,194,120	2,137,871	1,707,284	591,158	1,917,405	8,171,513	553,773	13,204,815	5,372,582
Income tax							-1,725,704	-827,825	-1,725,704	-827,825
9 months profit	2,304,273	1,194,120	2,137,871	1,707,284	591,158	1,917,405	6,445,809	-274,052	11,479,111	4,544,757
Change, %	+93.0%		+25.2%		-69.2%		+2452.0%		152.6%	
Total assets	8,972,145	20,284,563	2,511,024	2,613,153	1,335,321	2,000,728	363,703,273	75,575,428	376,521,763	100,473,872
Total liabilities	2,271,325	4,901,128	5,213,700	933,807	856,484	559,968	50,239,323	46,548,089	58,580,832	52,942,992
Acquisition of non-current assets	817	42,836	388	29,885	6,246	681,361	3,791,297	4,174,297	3,798,748	4,928,379
Depreciation and amortisation	1,389,980	2,097,237	32,430	186,487	115,136	74,161	543,804	1,149,768	2,081,350	3,507,653

Segment information by geographical segments is as follows:

LTL	LATVIA		LITHUANIA		UNALLOCATED		TOTAL	
	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005	3Q 2006	3Q 2005
Revenue	13,425,011	15,764,741	10,258,216	10,014,223	612,687	584,543	24,295,914	26,363,507
Change, %	-14.8%		+2.4%		+4.8%		-7.8%	
Total assets by location of assets			376,521,763	100,473,872			376,521,763	100,473,872
Acquisition of non-current assets			3,798,748	4,928,379			3,798,748	4,928,379

**5 Distribution expenses**

	3Q 2006	3Q 2005
	LTL	LTL
Salaries and social insurance	714,210	431,921
Advertising	258,435	538,274
Marketing services	474,168	34,464
Amortisation	60,368	67,694
Transportation expenses	54,656	18,407
Depreciation	26,280	13,023
Other	24,723	25,367
	<b>1,697,033</b>	<b>1,560,530</b>

**6 Administrative expenses**

	3Q 2006	3Q 2005
	LTL	LTL
Salaries and social insurance	2,157,961	1,503,316
Depreciation	455,916	887,139
Advisory services	402,684	195,500
Maintenance materials	318,608	201,099
Property taxes	130,973	264,418
Utilities	291,722	164,121
Security services	189,135	169,971
Business trips	323,115	151,256
Repair of premises	33,350	155,912
Communication expenses	149,514	51,444
Redundancy payments	67,512	37,952
Amortization	8,934	16,705
Rent	466,323	
Other	365,745	889,299
	<b>5,361,492</b>	<b>4,688,132</b>

**7 Other operating income and expenses**

	3Q 2006	3Q 2005
	LTL	LTL
OTHER OPERATING INCOME:		
Proceeds from sales of non current assets	2,037,583	73,521
Rent and utilities income	237,434	629,870
Proceeds from sales of materials, spare parts	604,362	246,766
TOTAL OTHER OPERATING INCOME	2,879,379	950,157
OTHER OPERATING EXPENSE:		
Cost of current assets sold	89,018	60,401
Cost of services rendered	224,009	284,430
Loss on disposal of tangible non current assets	1,588,698	3,319
TOTAL OTHER OPERATING EXPENSE	1,901,725	348,150
PROFIT/ LOSS FROM OTHER ACTIVITIES	<b>977,654</b>	<b>602,007</b>

**8 Financial income and expenses**

	3Q 2006	3Q 2005
	LTL	LTL
FINANCIAL INCOME:		
Delays and fines received	4,709,333	12,739
Interest income	80,167	27,471
Foreign exchange gain	61,830	202
Other	4,709,333	12,739
<b>TOTAL FINANCIAL INCOME</b>	<b>4,896,022</b>	<b>488,304</b>
FINANCIAL EXPENSES:		
Delays and fines paid	1,529,921	-580,356
Interest on borrowings	138,879	45,066
Foreign exchange loss	9,550	(3,622)
Other	1,529,921	-580,356
<b>TOTAL FINANCIAL EXPENSES</b>	<b>1,678,350</b>	<b>(538,912)</b>
<b>RESULT OF FINANCIAL ACTIVITIES</b>	<b>3,217,672</b>	<b>(50,608)</b>

**9 Corporate income tax expenses**

	3Q 2006	3Q 2005
	LTL	LTL
CURRENT TAX EXPENSE		
Current tax	1,725,704	827,825
DEFERRED TAX EXPENSE		
Occurrence and realization of temporary differences		
<b>TOTAL INCOME TAX EXPENSE</b>	<b>1,725,704</b>	<b>827,825</b>

The reconciliation of effective tax rate is as follows:

LTL	3Q 2006		3Q 2005	
Result before tax		13,204,815		5,372,582
Income tax using effective tax rate	19.00%	2,508,915	15.00%	805,887
Dividends received	(5.72)%	(755,389)		
Delays and fines received	(0.06)%	(8,491)		
Disposal of tangible fixed assets	0.01%	1,839	0.64%	5,168
Write down of inventories	0.06%	8,455	0.11%	5,725
	0.06%	7,354		
Subsidiary's costs	0.07%	8,912		
Tax corrections for previous periods	0.00	39,602	0.21%	11,045
Other	(0.65)%	(85,493)	15.00%	805,887
Increase of value of non current assets	19.00%	2,508,915	15.00%	805,887
	<b>13.07%</b>	<b>1,725,704</b>	<b>15.96%</b>	<b>827,825</b>



The calculation of the deferred tax can be specified as follows:

LTL	3Q 2006		3Q 2005	
	Temporary diff.	Deferred tax (18-19%)	Temporary diff.	Deferred tax (15%)
Impairment of receivables	232,720	43,447	387,335	58,100
Accrued expense	412,501	78,375	86,000	12,900
<b>NET BALANCE ON SEPTEMBER 30</b>	<b>645,221</b>	<b>1,218,22</b>	<b>473,335</b>	<b>71,000</b>

According to the amended tax legislation, during the period from 1 January 2006 to 31 December 2007, companies' profits subject to corporate income tax will be levied by additional social tax at a rate of 4% during 2006 and at a rate of 3% during 2007. The social tax is imposed in addition to the corporate income tax of 15%. The deferred tax as at 31 December 2005 was calculated using the effective rates of 19% and 18% for the temporary differences that will reverse in 2006 and 2007 respectively.

## 10 Staff costs

	3Q 2006	3Q 2005
	LTL	LTL
Wages and social security contributions in production costs	2,438,669	2,018,380
Salaries and social security costs in selling expenses	714,210	431,921
Salaries and social security costs administrative	2,157,961	1,503,317
Redundancy payments in administration expenses	67,512	37,952
	<b>5,378,352</b>	<b>3,991,570</b>

Staff costs include wages and salaries and emoluments for the management (General Director, Chief Financial Officer, Production Director, Sales Director, Procurement Director, Head of Quality Assurance, Chief Engineer, Head of Legal and General Affairs Division, Chief Accountant, Project Director Head of Commercial operations, Purchasing and logistics Director, Head of business development), of 1,306,673 litas (3Q 2005 – 681,261 litas).

At the end of third quarter of 2006, the Company employed 203 employees (3Q 2005 – 322 employees).

## 11 Property, plant and equipment

LTL	BUILDINGS	MACHINERY AND EQUIPMENT	VEHICLES AND OTHER ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
Cost as at 01 01 2005	21,938,984	20,652,893	767,651	1,396,331	44,755,859
Additions		1,344,673	259,979	3,294,543	4,899,195
Disposals		(535,780)	(61,824)		(597,604)
Cost as at 30 09 2005	21,938,984	21,461,786	965,806	4,690,874	49,057,450
Depreciation as at 01 01 2005	4,237,466	12,679,356	387,951		17,304,773
Depreciation during the period	829,511	2,519,400	74,343		3,423,254
Disposals		(500,905)	(56,734)		(557,639)
Depreciation as at 30 09 2005	5,066,977	14,697,851	405,560	0	20,170,388
NET BOOK VALUE AT 30 09 2005	16,872,007	6,763,935	560,246	4,690,874	28,887,062
Cost as at 30 09 2005	21,938,984	21,461,786	965,806	4,690,874	49,057,450
Additions		16,401	10,557	4,176,660	4,203,618
Disposals	(11,634,957)	(2,366,819)	(1,973)	(93,368)	(14,097,117)
Reclassified to assets held for sale	(8,891,475)				(8,891,475)
Reversal of impairment				196,613	196,613
Other reclassifications			(45,792)		(45,792)
Cost as at 31 12 2005	1,412,552	19,111,368	928,598	8,970,779	30,423,297
Depreciation as at 30 09 2005	5,066,977	14,697,851	405,560		20,170,388
Depreciation during the period	257,908	859,024	29,412		1,146,344

Continued

LTL	BUILDINGS	MACHINERY AND EQUIPMENT	VEHICLES AND OTHER ASSETS	CONSTRUCTION IN PROGRESS	TOTAL
Disposals	(4,555,819)	(1,838,070)	(1,971)		(6,395,860)
Reclassified to assets held for sale	(691,559)				(691,559)
Depreciation as at 31 12 2005	77,507	13,718,805	433,001		14,229,313
NET BOOK VALUE AT 31 12 2005	1,335,045	5,392,563	495,597	8,970,779	16,193,984
Cost as at 01 01 2006	1,412,552	19,111,368	928,598	8,970,779	30,423,297
Additions		547,856	157,631	3,004,615	3,710,102
Disposals	(7,003)	(636,590)	(62,278)		(705,871)
Other reclassifications					0
Cost as at 30 06 2006	1,405,549	19,022,634	1,023,951	11,975,394	33,427,528
Depreciation as at 01 01 2006	77,507	13,718,805	433,001		14,229,313
Depreciation during the period	11,271	1,918,841	81,936		2,012,048
Disposals	(505)	(572,464)	(59,739)		(632,708)
Depreciation as at 30 09 2006	88,273	15,065,182	455,198		15,608,653
NET BOOK VALUE AT 30 09 2006	1,317,276	3,957,452	568,753	11,975,394	17,818,875

### Leased property, plant and equipment

As at 30 September 2006, the Company has equipment with a carrying amount of Litass 1,992,221 and vehicles with a carrying amount of Litass 330,938 leased under financial leasing contracts (where the Company is a lessee).

As at 30 September 2006, the Company had a car leased under operational lease contracts (where the Company is a lessor).

Sanitas AB on 30 September 2006 rented place for industrial, manufacturing, storage and administrative rooms (altogether 11,703.95 square meters) from UAB Laikinosios sostinés projektai.

### Pledges

As at 30 September 2006, buildings and equipment with a carrying amount of Litass 6,517,462 are pledged for the bank loans (refer to Note 21).

### Depreciation

Depreciation of tangible assets has been allocated as follows:

	3Q 2006	3Q 2005
	LTL	LTL
Production costs	1,540,343	2,435,179
Administrative expenses	455,916	979,414
Distribution expenses	24,723	25,367
<b>TOTAL</b>	<b>2,020,982</b>	<b>3,439,960</b>

### 12 Intangible fixed assets

LTL	REGISTRATION CERTIFICATES, LICENSES	SOFTWARE, ETC.	TOTAL
Acquisition value as at 01 01 2005	346,397	305,215	651,612
Additions during the period	20,127	9,056	29,183
Disposal	(49,246)		(49,246)
Acquisition value as at 30 09 2005	317,278	314,271	631,549
Amortization as at 01 01 2005	168,676	237,900	406,576
Amortization for the period	68,100	16,299	84,399

Continued

LTL	REGISTRATION CERTIFICATES, LICENSES	SOFTWARE, ETC.	TOTAL
Disposal	(40,132)	(9,107)	(49,239)
Amortization as at 30 09 2005	196,644	245,092	441,736
<b>NET BOOK VALUE AT 30 09 2005</b>	<b>120,634</b>	<b>69,179</b>	<b>189,813</b>
Acquisition value as at 30 09 2005	317,278	314,271	631,549
Additions during the period	20,074	3,597	23,671
Disposal	(34,655)		(34,655)
Acquisition value as at 31 12 2005	302,697	317,868	620,565
Amortization as at 30 09 2005	196,644	245,092	441,736
Amortization for the period	22,487	4,569	27,056
Disposal	(24,009)	(3,165)	(27,174)
Amortization as at 31 12 2005	195,122	246,496	441,618
<b>NET BOOK VALUE AT 31 12 2005</b>	<b>107,575</b>	<b>71,372</b>	<b>178,947</b>
Acquisition value as at 31 12 2005	302,697	317,868	302,697
Additions during the period	50,730	37,916	50,730
Disposal	(49,251)		(49,251)
Acquisition value as at 30 09 2006	304,176	355,784	659,960
Amortization as at 31 12 2005	195,122	246,496	441,618
Amortization for the period	59,807	9,495	69,302
Disposal	(49,244)		(49,244)
Amortization as at 30 09 2006	205,685	255,991	461,676
<b>NET BOOK VALUE AT 30 09 2006</b>	<b>98,491</b>	<b>99,793</b>	<b>198,284</b>

Amortization of intangible assets has been allocated as follows:

	3Q 2006	3Q 2005
	LTL	LTL
Distribution expenses	60,368	67,694
Administrative expenses	8,934	16,705
<b>TOTAL</b>	<b>69,302</b>	<b>84,399</b>

### 13 Investments

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Hoechst – Biotika shares (100% shares)	43,984,960	43,984,960	43,984,960
Sanitas Polska shares (100% shares)	45,175		
Jelfa shares (9.99% shares)	51,527,540	38,503,285	
UAB Altisana shares (100% shares)	1,413,440	1,413,440	1,413,440
Other	13,,017,,300		226,537
INVESTMENTS INVOLVED TO NON CURRENT ASSETS	109,988,414	83,901,685	45,398,400
AB Endokrininiai preparatai shares (66% shares) in current assets			7,898,941
<b>TOTAL INVESTMENTS</b>	<b>109,988,414</b>	<b>83,901,685</b>	<b>53,297,341</b>

### *Hoechst-Biotika*

On 27 July 2005, the Company acquired all the shares in Hoechst-Biotika s.r.o. for Litas 43,984 thousand, satisfied in cash. The mentioned amount includes legal fees amounting to Litas 135 thousand. The acquired company manufactures and distributes medicines, mainly injection preparations, tablets and ointments. The investment in the subsidiary is stated at cost in the separate financial statements of AB Sanitas.

### *Altisana*

In July 2004, AB Sanitas acquired 100% interest in the limited liability company Altisana UAB, Lithuania. At the time of acquisition the subsidiary had no operating activities other than holding real estate in Kaunakiemio str. in Kaunas, whci is next to the production plant of AB Sanitas in Vytauto av. in Kaunas. It was intended to sell the shares of UAB Altisana in the short - term, consequently, the investment was presented in current assets in the annual accounts for 2004.

In 2005, the Company took a decision to sell the real estate of UAB Altisana together with production premises of AB Sanitas. On 30 December 2005, AB Sanitas sold its production premises to UAB Altisana for Litas 13, 460,000 realising a gain of Litas 5,849,651. The price of the disposal was set as per independent appraisal report as at the end of 2005. UAB Altisana sold the real estate to UAB Laikinosios Sostinës projektai on 2 May 2006.

From 30 December 2005 till 25 April 2006, production premises were leased by AB Sanitas from UAB Altisana. After expected disposal of the real estate to third party, the production premises will be leased by AB Sanitas until the new production plant is constructed, which is expected by the end of 2006.

In 2005, the investment in shares of UAB Altisana were reclassified to non-current assets as well as the comparative figures for 2004 were restated correspondingly according to IFRS 5, as the Company has not disposed the shares of the subsidiary within 12 months from classification as held for sale (see accounting policy on assets held for sale).

In the separate financial statements of AB Sanitas the investment in the subsidiary is stated at cost.

### *Jelfa*

AB Sanitas participates in a privatization tender of a pharmaceutical company Jelfa, Poland. The Company, while planning to acquire control over Jelfa, in October – December 2005 acquired 569,875 shares or 8.38% on the Warsaw Stock Exchange.

At initial recognition, the investment in the shares was stated at fair value of Litas 40,292,842 plus direct costs of Litas 1,966,336 (comprising of brokerage commissions and success fees).

The investment was re-measured to fair value using the average transaction price as per the Warsaw Stock Exchange as at 31 December 2005. The quoted price was of 75.40 PLN or 67.57 Litas per share.

The effect of the re-measurement of the investments to their fair value as at 31 December 2005 was as follows:

<b>INVESTMENT IN JELFA, POLAND</b>	<b>LTL</b>
Acquired 569,875 shares of Jelfa (8.38%)	40,292,845
Direct costs	1,966,336
Value of the investment at initial recognition	42,259,181
Adjustment at subsequent re-measurement to the market value of the shares	(3,755,896)
<b>CARRYING AMOUNT OF THE SHARES AS AT 31 DECEMBER 2005</b>	<b>38,503,285</b>

The loss on subsequent re-measurement of Litas 3,042,276 after deduction of deferred tax income of Litas 713,620 was recognized in the equity.

On February 2006 AB Sanitas increased its holding in Jelfa up to 9.99% of shares.

On 27 February 2006, an official offer was placed on the Warsaw Stock Exchange for acquisition of 90.01% of shares at a price of 93 PLN per share. During the official offer 5,750,190 or 84.56% of shares were acquired.

Company and its subsidiary Sanitas Polska owns 100% of shares of polish pharmaceutical company Jelfa SA from 30 July 2006.

Jelfa SA data is included in the consolidated AB Sanitas financial statements from 1 June 2006.

#### *Investment in AB Endokrininiai Preparatai*

In May 2004, AB Sanitas acquired 40% interest in the limited liability company Endokrininiai Preparatai domiciled in Kaunas, Lithuania. The associate was engaged in production of pharmaceutical preparations. From May 2004, after accession to the EU, the new regulations came into force requiring companies producing and trading medicines to obtain Good Manufacturing Practice and Good Distribution Practice certifications with certain transitory period allowed. The relevant certifications had not been acquired by the company and, consequently, on 15 April 2005 the liquidation procedures of AB Endokrininiai Preparatai started. On 29 April 2005, AB Sanitas increased its holding up to 67% of the shares acquiring control over the company. The liquidation was finished by the end of 2005, when corresponding distribution to shareholders was paid out, and only formalities of cancellation of the registration were left.

Until liquidation of AB Endokrininiai Preparatai, investment in its shares was recorded at acquisition cost in the separate financial statements of the parent company AB Sanitas.

#### **14 Assets held for sale**

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Real estate in Veiverių str., Kaunas	8,199,916	8,199,916	0
<b>TOTAL</b>	<b>8,199,916</b>	<b>8,199,916</b>	<b>0</b>

#### *Real estate held for sale*

In September 2005, the company concluded a preliminary sale-purchase agreement concerning real estate located in Veiverių str., Kaunas. In accordance with this agreement the company received a prepayment of Litas 800 thousand. A sale is expected in 2006. The fair value less cost to sell of the real estate held for sale was estimated by reference to an independent appraisal as well as the existing preliminary agreement. The assets' fair value less cost to sell is of Litas 8,688 thousand (after deduction of the cost to sell of Litas 302 thousand), which exceeds the carrying amount of the property as at 31 December 2005 and 30 September 2006. Consequently, the real estate is stated at its carrying amount before the reclassification to the assets held for sale at the end of 2005.

#### **15 Inventories**

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Finished goods	1,518,722	1,536,800	1,881,481
Raw material	3,034,324	3,621,088	3,446,940
Work in progress	240,790	249,044	443,132
Goods for resale	1,428,416	626,573	897,649
	<b>6,222,252</b>	<b>6,033,505</b>	<b>6,669,202</b>

At 30 September 2006, there are no inventories carried at fair value less cost to sell (31 12 2005 and 31 09 2006: Litas 0).

Inventories expensed during the half-year can be specified as follows:

**16 Trade receivables**

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Net carrying amount	4,732,622	6,570,785	8,182,974

**17 Other receivables**

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Loans receivable from subsidiary	223,145,740	823,081	
Receivable from subsidiary	4,702,276	2,295,679	1,004,320
Refundable VAT	499,395	349,243	585,147
Deferred charges	136,925	70,147	262,800
Other receivables	523,381	60,841	109,593
	<b>229,007,717</b>	<b>3,598,991</b>	<b>1,961,860</b>

The loans of LTL 223,145,740 was given to Sanitas Polska with interest rate of 4,3% a year and must be returned till March-June of 2007.

**18 Cash and cash equivalents**

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Cash at bank	104,389	1,555,091	922,163
Cash in hand	11,659	4,510	41,605
<b>Cash and cash equivalents</b>	<b>116,048</b>	<b>1,559,601</b>	<b>963,768</b>

**19 Capital and reserves****Share capital**

In July 2005, 408,941 shares with a nominal value of 5 Litas per share were issued at 50.50 Litas per share. The share capital was increased by Litas 19,598,293, including the share premium of Litas 17,553,588 (net of the transaction costs of Litas 1,053,228).

As at 30 September 2006, the Company's share capital comprised of 2,200,000 ordinary shares with a nominal value of 5 Litas each. The nominal value of the capital registered amounted to 11,000,000 Litas.

In November 2005, the shares were split at 5 shares with a nominal value of 1 Litas per share for 1 share of 5 Litas in issue.

As at 31 December 2005, the Company's share capital comprised of 11,000,000 ordinary shares with a nominal value of 1 Litas per share. The nominal value of the capital registered amounted to Litas 11,000,000.

In April 2006, 20,105,920 shares with a nominal value of 1 Litas per share were issued at 13 Litas per share. The share capital was increased by Litas 250,527,754, including the share premium of Litas 230,421,834

As at 30 June 2006, the Company's share capital comprised of 31,105,920 ordinary shares with a nominal value of 1 Litas each.

The share capital was fully paid as at 30 September 2005, 31 December 2005 and 30 September 2006.

The holders of the ordinary shares are entitled to one vote per share in the shareholders meeting of the Company and are entitled to receive dividends as declared from time to time and to capital repayment in case of decrease of the share capital.

### Legal reserve

The legal reserve in the amount of 3,110,592 Litass is a compulsory reserve under Lithuanian legislation. Annual contributions of 5% of the net profit available for distribution are required until the legal reserve reaches 10% of the authorised capital. The legal reserve can only be used to cover losses.

### Fair value reserve

Investments in equity securities held by the Company, except for investments in subsidiaries and associates, are stated at fair value, with any resultant gain or loss on re-measurement to fair value being recognised directly in equity. The fair value reserve represents fair value adjustments of Jelfa shares (see note 13) of Litass 3,755,896 less related deferred tax income of Litass 713,620 (see note 9). The net fair value reserve is a deduction from the equity as at 31 December 2005 and amounts to Litass 3,042,276. The cost price of Jelfa's shares was valued on 31st of March 2006 and the real loss of shares revaluation was recalculated (look at clarification no. 13).

### Other reserves

The Company had no other reserves as at 31 December 2005 and 30 June 2006. Before profit allocation, all distributable reserves are transferred to retained earnings and re-distributed by the shareholders' decision each year.

## 20 Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares. The number of shares in issue in 2005 is adjusted by the share split 5 for 1 effected in November 2005.

	3Q 2006	3Q 2005
	LTL	LTL
Shares issued as at 1 January	11,000,000	1,791,059
Shares issued in April 2006	20,105,920	0
Shares issued as at 30 September before the share split adjustment	31,105,920	1,791,059
Shares issued as at 30 September, adjusted for the share split	31,105,920	8,955,295
Average weighted number of shares in issue	24,403,947	9,636,863
Net profit for the 9 months	11,479,111	4,544,757
Earnings per share	0.47	0.47

## 21 Interest bearing loans and borrowings

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
NON-CURRENT LIABILITIES			
Credit line facility from Sampo Bankas			1,601,237
Loan from Sampo Bankas			26,200,074
Credit line facility from SEB Vilniaus Bankas	4,051,220	4,803,147	
Loan from SEB Vilniaus bankas	13,919,207	16,362,025	
Financial leasing	2,004,646	244,172	647,658
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>19,975,073</b>	<b>21,409,344</b>	<b>28,448,969</b>
CURRENT LIABILITIES			
Loan from associate AB Endokrininiai Preparatai			5,283,088
SEB Vilniaus Bankas credit facility		4,190,722	
SEB Vilniaus Bankas loans	654,555	4,872,940	1,000,050

Continued

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
FBC AB Finasta, UAB Nenuorama loans		15,480,065	
Financial leasing	20,920,606	17,264,000	
<b>TOTAL CURRENT LIABILITIES</b>	<b>21,892,753</b>	<b>42,209,715</b>	<b>6,379,771</b>
<b>TOTAL INTEREST BEARING BORROWINGS</b>	<b>41,867,826</b>	<b>63,619,059</b>	<b>34,828,740</b>

## Terms and repayment schedule of interest bearing borrowings

	TOTAL	2006	2007	2008	2009
SEB Vilniaus Bankas, loan in Litas, bearing variable interest at 6 months EURLIBOR + 1.05%	6,981,939	654,555	2,618,220	2,618,220	1,090,944
SEB Vilniaus Bankas, loan in Litas - variable interest at 6 months EURLIBOR + 1.32%, having finished the construction of plant and having pledged it - EURLIBOR + 1.05%	7,591,823		2,094,908	2,285,355	3,211,560
SEB Vilniaus Bankas, credit facility in EUR and LTL bearing variable interest at 6 months EURLIBOR + 1.05%	4,051,220			4,051,220	
Loan from subsidiary Hoechst – Biotika with 5% p.a. fixed interest, maturing in November 2006	11,078,474	3,729,024	7,349,450		
Loan from UAB Altisana with 5% p.a. fixed interest, maturing in March 2007	9,842,131		9,842,131		
Sampo Bankas, leasing for acquisition of equipment for testing of tightness of ampoule preparations, variable interest at 6 months EURIBOR +1.9%	254,944	84,034	170,910		
Sampo Bankas, finance leasing of 4 cars, variable interest at 6 months EURIBOR +1.9%	51,982	10,808	41,174		
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.7%	39,282	7,194	32,088		
Sampo Bankas, finance leasing of used equipment variable interest at 6 months EURIBOR +1.4%	943,998	97,561	315,611	330,683	200,143
Sampo Bankas, finance leasing of used equipment variable interest at 6 months EURIBOR +1.4%	890,732	106,970	282,262	296,090	205,410
Sampo Bankas, finance leasing of a car, variable interest at 6 months EURIBOR +1.2%	141,300	11,025	45,420	47,630	37,225
<b>TOTAL</b>	<b>41,570,212</b>	<b>14,018,962</b>	<b>15,191,700</b>	<b>9,347,328</b>	<b>3,012,222</b>

According to the loan agreement with SEB Vilniaus Bankas, the Company has unutilized Litas 20,997 thousand of a loan in Litas with variable interest of EURLIBOR plus 1.05 per cent margin, maturing in 2015. The purpose of the loan is for the financing of the construction of a new production plant.

In accordance with the loan agreements with SEB Vilniaus Bankas, the bank's permission is required for guarantees issued to any third party; selling or renting assets of more than Litas 1,000 thousand during one year; loans received from related parties of more than Litas 5,000 thousand; loans received of more than Litas 1,000 thousand from other parties; loans issued. According to the mentioned agreements, The



Company obliged to keep ratio between financial liabilities and EBITDA not higher than 5.5 during 2005; 5.0 during the 1<sup>st</sup> half of 2006; 4.0 during the 2<sup>nd</sup> half of 2006; 3.0 during 2007; 2.5 from 2008.

## 22 GRANTS

On 21 January 2005, the Ministry of Economy of the Republic of Lithuania, public institution Lithuanian Business Development Agency and AB Sanitas concluded an agreement on grant for financing of construction of a new production plant of AB Sanitas. The total approved grant amounts to 16,157,151 Litas and is reimbursed after actual expenses on construction are incurred. By 30 September 2006, the Company has received grant of Litas 3,107,280. The expected compensation of construction costs during 2006 -2007 amounts to Litas 13,049,87.

## 23 Other creditors

	30 09 2006	31 12 2005	30 09 2005
	LTL	LTL	LTL
Taxes, salaries and social insurance payable	632,561	565,717	493,401
Vacation reserve	262,043	376,606	38,640
Accrued volume discounts to customers	431,179	423,192	21,593
Payable for real estate			10,300,000
Other payables and accrued charges	67,325	153,748	30,366
	<b>1,393,108</b>	<b>1,519,263</b>	<b>10,884,000</b>

## 24 Contingencies

As at 30 September 2006, buildings and equipment with a carrying amount of 6 517 462 Litas were pledged to secure the bank loans (refer to Note 18). Besides, investments of 43,984,960 Litas in Hoechst – Biotika, 51,527,540 Litas in Jelfa and 64,526 Litas cash in SEB Vilniaus bankas were pledged to secure those loans as well.

## 25 Related party transactions

The Company's related parties are its shareholders holding an interest that gives control or significant influence over the Company (refer to information on major shareholders on page 9), entities under common control with the Company, the Company's subsidiaries Altisana, Hoechst-Biotika and Sanitas Polska, members of the key management personnel of the mentioned companies, as well as close members of the family of the mentioned individuals.

The related party transactions through the 9 months of 2006 were as follows (LTL):

SALES TO SUBSIDIARIES		
UAB Atisana	Interest	3,964
Sanitas Polska	Interest	4,702,276
Hoechst – Biotika	Services	38,475
Jelfa	Services	26,945
SALES TO ENTITY UNDER COMMON CONTROL WITH AB SANITAS SHAREHOLDERS:		
UAB Invalda Construction Management	Services	27,175
<b>TOTAL</b>		<b>4,771,890</b>
PURCHASES FROM SUBSIDIARIES		
Hoechst – Biotika	Pharmaceuticals	1,621,948
Hoechst – Biotika	Interest	528,100
UAB Altisana	Rent	208,000
UAB Altisana	Interest	205,569
PURCHASES FROM ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		

Continued

UAB Invalda Real Estate	Services	143,061
FBC AB Finasta	Services	25,097
FBC AB Finasta	Commission	100,700
FBC AB Finasta	Purchase of Jelfa shares	8,724,850
FBC AB Finasta	Interest	61,696
FBC AB Finasta	Agency fee	158,282
UAB Laikinosios sostinės projektai	Rent	258,323
UAB Valmeda	Rent	990
PURCHASES FROM ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS		
UAB Nenuorama	Interest	247,858
<b>TOTAL</b>		<b>11,919,633</b>
Payable to subsidiary:		
Hoechst – Biotika	Loan	11,078,474
Hoechst – Biotika	Goods and services	1,057,352
UAB Altisana	Loan	9,636,562
PAYABLE TO ENTITIES UNDER COMMON CONTROL WITH SANITAS SHAREHOLDERS:		
FBC AB Finasta	Services	6,375
PAYABLE TO ENTITIES WHICH CONTROL SANITAS SHAREHOLDERS:		
UAB Nenuorama	Interest	0
<b>TOTAL</b>		<b>21,778,763</b>
RECEIVABLE FROM SUBSIDIARY:		
Sanitas Polska	Loan	223,145,740
Sanitas Polska	Interest	4,702,276
<b>TOTAL</b>		<b>227,848,016</b>

Amounts paid to the management are disclosed in note 10.

## 26 Foreign currency

Exposure to credit, liquidity, interest rate and currency risk arises in the normal course of the Company's operations.

### Credit risk

Management has a credit policy in place, and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. At the balance sheet date, there were no significant concentrations of credit risk.

### Foreign exchange risk

The Company's foreign currency risk incurred on sales, purchases and borrowings that are denominated in EUR is insignificant, as Litas is pegged to EUR at 3.4528 Litas for 1 EUR. The currency giving rise to foreign exchange risk is primarily US Dollars and Poland Zlotych. No financial instruments are used to hedge against the risk, as it is not considered to be significant.

Trade receivables, payables and cash in foreign currency as at 30 June 2006 can be resolved as follows:

LTL	EUR	USD	PLN
Official currency rate	3.4528	2.7135	0.86782
Prepayments	580,578		3,991,972
Cash	64,526	21,252	
Loans	(11,078,474)		
Trade and other creditors	(2,104,154)	(76,256)	(43)
Trade receivables	2,781,921		
<b>NET POSITION</b>	<b>(9,755,603)</b>	<b>(55,004)</b>	<b>3,991,929</b>



**Liquidity risk**

The Company's policy is to maintain sufficient cash and cash equivalents and/or have available funding through an adequate amount of committed credit facilities. The Company intends to raise additional equity financing through issue of shares of AB Sanitas in 2006.

**Interest rate risk**

Most of the Company's borrowings are subject to variable interest rates, related to LIBOR and EURIBOR. The Company also has some short term borrowings from related parties at fixed interest rates, as specified in notes 21 and 25.

The Company did not use any financial instruments to hedge its exposure to the cash flow or price risk related to debt instruments.

#### IV. MATERIAL EVENTS IN THE ISSUER'S ACTIVITY AND OTHER INFORMATION

##### 11. Material events in the Issuer's activity

On 4 January 2006 the Supervisory Board approved the forecast of AB Sanitas activity for 2006 presented by the Management of the Company. It is planned that the sales will total LTL 66.79 m. and the net profit will amount to LTL 11.48 m. EBITDA will total LTL 17.82 m.

On 19 January, 2006 AB Sanitas and Polish company's Jelfa Trade unions entered into an agreement which sets additional guarantees to the employees of the company and the conditions for the cooperation with Trade unions. The said terms will be included into Collective Work Contract. The agreement comes into force after Sanitas AB had acquired company's Jelfa shares of stock, entitling it to the majority of votes at the General Shareholders' meeting

On 24 February 2006 shareholders' agreement was signed among AB Invalda, holding the major part of shares of AB Sanitas, with couple of shareholders – natural persons, and investment funds, namely Amber Trust II SCA and Citigroup Venture Capital International Jersey Limited. The agreement relates to the purchase of new issue of AB Sanitas shares, meant for the acquisition of Polish pharmaceutical company Jelfa SA.

On 27 February 2006 Sanitas Polska spol. z.o.o., the subsidiary of AB Sanitas announced Tender Offer to acquire 100 percent of Polish Pharmaceutical company Jelfa SA shares for 93 PLN per each. Minimal number of shares to be acquired is not less than 50 percent plus one share.

Executing a decision to sell real estate, situated among the streets of Vytautas, Ciurlionis and Kaunakiemio in Kaunas, owned by AB Sanitas group, a contest was organized. UAB Balvesta became the winner of the contest. On 8 March 2006 a preliminary agreement was signed with a subsidiary of this Company - UAB Laikinosios sostines projektai. In this preliminary agreement it was agreed upon the sale price of this real estate being not lower than LTL 27 m. (not including VAT). Part of the buildings currently are being reconstructed and that is the reason why the price is going to be revised till the date of the signing of the Sales-Purchase agreement. It is planned to construct a complex of multi-storey buildings on the said territory. AB Sanitas will be using manufacturing – administrative premises according to the Rent contract and in the year 2007 it is planned to move to premises currently under construction at Veiveriu str. 134, Kaunas.

AB Sanitas when implementing the project "The modernization of the production of AB Sanitas", partially financed by EU Structural funds and the Ministry of the Economy of the Republic of Lithuania, completed the second stage of the contest of the procurement of construction works. On 14 March 2006 at the meeting of the Purchase commission a winner was announced. Consortium of „LSMW sp.z o.o. Oddzial w Polsce“ (Poland) and UAB Ranga IV (Lithuania) was identified as such after making an offer for the sum of LTL 33,300,466 including VAT.

When implementing the project "The modernization of the production of AB Sanitas", partially financed by EU Structural funds and the Ministry of the Economy of the Republic of Lithuania, on March 27 2006 AB Sanitas signed a contract with Consortium of „LSMW sp.z o.o. Oddzial w Polsce“ (Poland) and UAB Ranga IV (Lithuania) regarding the second stage of the purchase of construction works. The contract price - LTL 31,198,172 including VAT.

On April 4 2006 the agreement on the maintenance of medicine – related policy was signed between AB Sanitas daughter company Sanitas Polska spol. s.r.o. and Ministry of Health of the Republic of Poland.

According to the agreement, subject to the condition that Sanitas Polska acquires shares in Jelfa S. A. in the amount allowing control over Jelfa on the level of General Shareholders' Meeting and Supervisory Board, Sanitas Polska is obliged to ensure the production of reimbursable medicines, that are at present time produced by Jelfa S.A, at the level ensuring covering of Polish market and in prices not higher than at the present moment. The list of reimbursable medicines (49 products) with their prices was confirmed by the Ministry of Health of the Republic of Poland

The Extraordinary General Shareholders' Meeting of AB Sanitas held on April 7 2006 passed the following resolutions:

1.1. To partially amend the decision of the Extraordinary General Meeting of Shareholders of 29.11.2005 (which increased the statutory capital of AB Sanitas from LTL 11,000,000 to LTL 27,000,000 by additionally issuing 16,000,000 ordinary registered shares with a nominal value of LTL 1 each and setting the issue price of one share at LTL 13), and to increase the statutory capital of AB Sanitas from LTL 11,000,000 to LTL 36,000,000 by additionally issuing 25,000,000 ordinary registered shares with a nominal value of LTL 1 each, following the provisions of art. 20 sec. 1 subsection 13, art. 28 sec. 1 subsection 8, art. 44, art. 45, art. 49, art. 50 of the Law on Companies of the Republic of Lithuania. This decision was taken because the issue of shares became insufficient for financing the acquisition of shares of Polish company Jelfa SA.

1.2 The issue price of one share is now LTL 13.

1.3. To authorize the head of the company to increase the statutory capital following the decisions of the Extraordinary General Meeting of Shareholders on 29.11.2005 and the present decision, and in accordance with the laws currently in force it is the duty of the head of the company to set the terms for the distribution of shares, the order of subscription, and payment for shares.

1.4. If within a term for the subscription for shares set by the head of the company, the issue of shares is not fully underwritten, the statutory capital is increased by the amount of nominal values of shares subscribed for. By this decision, the head of the company is assigned to change the statutory capital and the number of shares accordingly.

2.1. To withdraw the right of pre-emption for the company's shareholders to acquire the 25,000,000 ordinary registered shares of AB Sanitas being additionally issued, following art. 20 sec. 1 subsection 12, art. 28 sec. 2 and art. 57 sec. 5 of the Law on Companies of the Republic of Lithuania

2.2. The reason for the withdrawal of the right of pre-emption: whereas the issue of shares is purposive, being exclusively for purchasing the controlling stake at the Polish Pharmaceutical company Jelfa SA, the investor, capable of paying the whole issue of the shares in full within the minimum terms, is chosen. Accordingly, the company will be able to give a more reliable guarantee that it will pay for shares of the Polish company in a due and timely manner.

2.3. To grant the public limited financial brokerage company Finasta (company code: 122570630, residential address: Konstitucijos ave. 23, Vilnius, legal form public limited liability company), the exclusive right to acquire all 25,000,000 newly issued ordinary registered shares at the nominal value of LTL 1 each.

3.1. To change the articles 4.1. and 5.1. of the Articles of the Company and to formulate them as below, taking into account the decisions adopted at the extraordinary General Meeting of Shareholders:

“4.1. The statutory capital of the corporation is LTL 36,000,000 (thirty-six million litas). It is divided into ordinary registered shares. The statutory capital of the company may be increased or decreased by the decision adopted at the General Meeting of Shareholders; or in cases provided for in the Law on the Companies of the Republic of Lithuania, by the decision of the court.

5.1. The statutory capital of the corporation is divided into 36,000,000 (thirty-six million) ordinary registered shares. The nominal value of one share is LTL 1 (one).”

3.2. To confirm the above stated amendments to the Articles of the Company and the new wording of the Articles of the company, prepared with respect to these amendments.

3.3. To authorize the head of the company, Saulius Jurgelėnas, to sign the amendments made to the Articles of Sanitas AB and the amended Articles of the Company. In case the issue of shares is not fully distributed, the head of the company is authorized to change the statutory capital.

By implementing of the decision of the Extraordinary General Meeting of Shareholders of 7 April 2006 FBC AB Finasta (company code: 122570630) underwrote and on 11 April 2006 fully paid 20,105,920 ordinary registered shares at the value of LTL 13 per each.

New wording of the Articles of Association of AB Sanitas was registered on April 11 2006. New authorised capital of the company is LTL 31,105,920.

On April 14 2006 the procedure of the Tender offer for the acquisition of 100 percent of Polish Pharmaceutical Company Jelfa SA shares, which was announced on February 27, 2006 by AB Sanitas subsidiary – Sanitas Polska spol. z.o.o., was completed.

The ultimate data confirms that Sanitas Polska spol. z.o.o. has acquired 5,750,190 Jelfa SA shares, which makes up 84.56 % of the statutory capital of the latter Company.

The General Meeting of AB Sanitas shareholders held on April 27,2006 got acquainted with the auditor's KPMG Baltics report on the Company's financial statement and activity report for 2005 as well as the Supervisory Board's report on the company's activity in 2005.

The meeting adopted following resolutions:

- 1) To approve the Company's activity report for the year 2005.
- 2) To approve the Company's annual financial statements for 2005 and consolidated financial statements for 2005.
- 3) To approve the Company's profit distribution for the 2005:
 

Undistributed result – profit (loss) – at the end of the previous financial year	LTL 12,631,431
The net result of the financial year – profit (loss)	LTL 12,947,943
Result available for distribution – profit (loss) – at the end of the financial year	LTL 25,579,374
(Shareholders' distributions to cover loss	
Transfers from the reserves	
Profit available for distribution	LTL 25,579,374
Distribution of the profit:	
- to the reserves provided by law	LTL 1,309,488
- to other reserves	LTL 3,042,276
- dividends	
- etc	
Undistributed result – profit (loss) – at the end of the financial year	LTL 21,227,610
- 4) Do not elect an auditor of the Company at present general meeting.
- 5) To approve the amendments of the Articles of Association, by setting that there is no Supervisory Board in the Company and Management Board comprised of 5 members is elected for the term of 4 years; to approve new wording of the Article of Association;
- 6) To elect to the Management Board for the term of 4 years the persons stated below: Dailius Juozapas Mišeikis, Darius Šulnis, Darius Žaromskis, Dalius Kaziūnas, Saulius Jurgelėnas.

The sale of real estate, situated among the streets of Vytautas, Ciurlionis and Kaunakiemio in Kaunas, owned by Sanitas, AB group company Altisana, UAB was completed on 02 May, 2006. Mentioned above real estate was sold to Laikiniosios sostines projektai, UAB for the amount of LTL 28,850,680 (including VAT of LTL 1,763,34)

On May 15, 2006 the Articles of Association of Sanitas AB were registered in the Register of Legal Persons of the Republic of Lithuania. The amendments to the Articles of Association are related to the changes in the structure of the management bodies: the formation of the Management Board and the cancellation of the Supervisory Board.

On 26th of May, 2006 Darius Šulnis has been elected as a Chairman of the Management Board of Sanitas AB.

On the 2nd of June, 2006 the Extraordinary Shareholders Meeting of Jelfa SA, the subsidiary of Sanitas AB, made changes in the Supervisory Board of Jelfa SA, namely re-electing 6 members out of 9. The newly elected Supervisory Board of Jelfa SA is composed of: Darius Šulnis; Jonas Bielinis; Dariusz Marek Budzen; Marek Wroniak; Hagen Dahms; Elvis Jurkevičius; Wojciech Wozniak; Andrzej Idziak; Piotr Sosnik

On June 9, 2006 at the meeting of Supervisory Board of Polish Pharmaceutical Company Jelfa SA – the subsidiary of Sanitas AB, the new Management Board was elected. The newly elected Management Board of Jelfa SA is composed of: Saulius Jurgelėnas the President of the Management Board and the members - Rūta Milkuvienė and Eladijus Kirijanovas.

As from June 12, 2006 Eladijus Kirijanovas – ex-president of Sonex group takes office of Finance Director of Sanitas AB.

Consolidated sales of Sanitas AB group for the first half year 2006 totaled to LTL 46.164 million. Preliminary consolidated results of activity for the same period amounted to LTL 5.615 million. The results of activity of the group were influenced by the consolidation of the financial accountability of Polish pharmaceutical company „Jelfa“ SA from June 1, 2006.

On July 25, 2006 the Management Board of Sanitas AB, after taking into account the prospective of the recently acquired Polish pharmaceutical company „Jelfa“ SA and tendencies of market, approved the forecast of the activity of Sanitas group for 2006: the sales in amount of LTL 221.1 million and net profit totaling to LTL 13.9 million. EBITDA shall equal to LTL 53.2 million. Sanitas AB previously announced the forecast for 2006 with expectations of sales totaling to LTL 66.8 million, net profit totaling to LTL 11.5 million and EBITDA amounting to LTL 17.8 million.

The Management Board of Sanitas AB approved the activity forecast for the period of 2007-2010:

Year	Sales, million LTL	Net profit, million LTL	EBITDA, million LTL
2007	385.6	29.5	93.6
2008	454.4	54.4	120.5
2009	512.0	78.8	146.6
2010	602.1	112.6	185.3

At the Extraordinary General Meeting of Shareholders of Sanitas AB that took place on July 31, 2006 the following resolutions were adopted: to withdraw Saulius Jurgelėnas and Dalius Kaziunas from the company's Management Board and elect Martynas Cesnavicius and Sunil Kumar Nair to the company's Management Board for the tenure of the Management Board in force. The Meeting decided to withdraw Company's auditor – KPMG Baltics, UAB and elect Ernst & Young Baltic, UAB for the examination of the consolidated financial statements for the year 2006-2007, setting a yearly amount of LTL 86,000 as a payment for services, not including VAT, and additional expenses (travel, accommodation and the like), the latter shall not exceed LTL 3,500, without VAT per year.

On July 24, 2006 the squeeze-out procedure launched by Sanitas AB subsidiary Sanitas Polska spol. z o.o. has come into effect. According to the said procedure the minority of Polish pharmaceutical company's Jelfa

SA shareholders are supposed to sell the shares they own in Jelfa SA to Sanitas Polska spol. z o.o. The number of shares covered by squeeze-out totals to 322 765 ordinary bearer shares with a nominal value. The squeeze-out price – 93 PLN. The end of the squeeze-out procedure is scheduled at July 31, 2006.

After the approval of Sanitas AB Prospectus (Reference of approval No. 4R-36) by decision No. 2K-251 adopted on August 31, 2006 by Lithuanian Securities Commission, the issue of 20 105 920 ordinary registered shares of Sanitas AB, bearing ISIN code LT0000127516, is going to be listed on the Main list of Vilnius Stock Exchange AB on September 6, 2006. The said issue is going to be linked up with the issue of 11 000 000 ordinary registered shares, bearing ISIN code LT0000106171, listed on the Main list of Vilnius Stock Exchange AB.

Consolidated sales of Sanitas AB group for the three quarters of the current year totaled to LTL 94.487 thousand. The sales for September, 2006 totaled to LTL 23.470 thousand.

## 12. Overview of the Issuer's results

During the three quarters of 2006 the sales of AB Sanitas group amounted to LTL 94.49 million, of which LTL 24.30 million were generated only by AB Sanitas. In comparison with the three quarters of 2005, sales increased by 2.1 times. During the cycle AB Sanitas sales decreased by 7.8%.

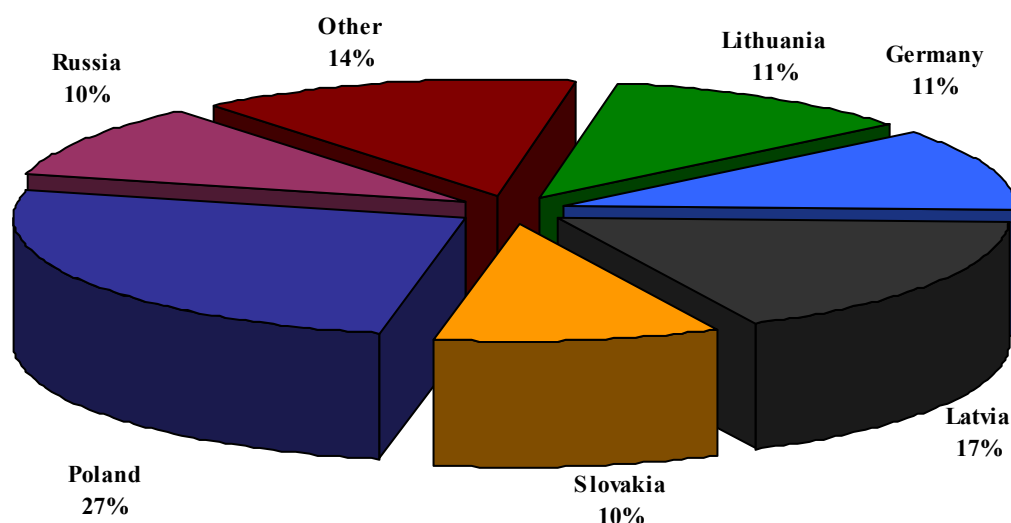
The most influence on the increase of Group's sales was made by the consolidation of Hoechst-Biotika (Slovakia) and Jelfa (Poland) results. The sales of Hoechst-Biotika, purchased in the middle of 2005, amounted to LTL 22.78 million during the cycle. The sales of Jelfa amounted to LTL 49.03 million during the cycle, the consolidation of Jelfa SA results begun from June 2006. Information about sales is presented in the table below.

Table 12.1. Information about sales

	9 MONTHS 2005, LTL	9 MONTHS 2006, LTL	CHANGE, %
AB Sanitas	26,363,507	24,295,914	-7.84%
Local sales	10,035,121	10,258,222	2.22%
Export	16,328,386	14,037,692	-14.03%
Hoechst - Biotika	17,940,631	22,784,563	27.00%
Jelfa	0	49,028,477	0.00%
Inter-company transaction elimination	0	-1,624,143	0.00%
<b>TOTAL</b>	<b>44,304,138</b>	<b>94,484,811</b>	<b>113.26%</b>

The most sales during the cycle were made to Poland, Latvia, Lithuania, Germany and Slovakia. The sales to these countries amounted to 76,3%.





Picture 12.1. Sales by countries for the 9 months of 2006

AB Sanitas sales during the cycle amounted to LTL 24.30 million of which the sales in Lithuania amounted to LTL 10.26 million (42.2%).

During the 9 months of 2006 the Company traded 96 names of drugs. Sales of 6 products were more than LTL 500 thousand and amounted to 61% of AB Sanitas sales.

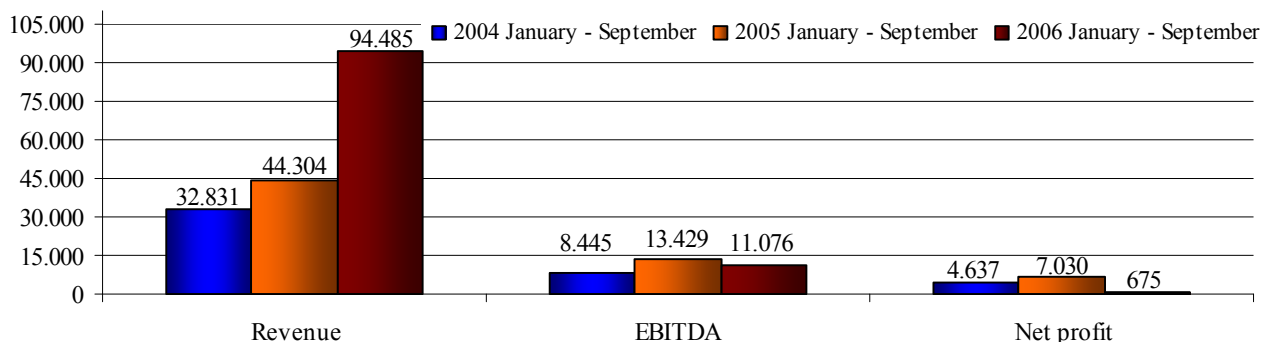
Table 12.2. Products which sales exceeded LTL 500 thousand during the 9 months of 2006

	PRODUCT	AMOUNT LTL
1	Mildronate 10% solution injection 5ml. N10	9,762,678
2	Neocitramonas (Acetylsalicylic acid +Paracetamol +Coffein) tab. N100	1,948,159
3	Sodium chloride 0.9% for inj.5ml N10	894,577
4	Ranitidinas Sanitas (Ranitidin)150 mg tab. N100 (10x10)	764,848
5	Euphylline 2.4 % injection 5ml N10	680,343
6	Analgin 50% solution injection 2ml N10	659,339

The main financial ratios and their dynamics are presented in the table 18.3 and the picture 18.2 below.

Table 12.3. The main financial ratios of the 9 months of 2006

FINANCIAL RESULTS (THOUSAND LTL)	9 MONTHS 2005	9 MONTHS 2006	CHANGE
Sales and Services	44,304	94,485	+113.3%
Cost of goods sold	33,804	60,821	+79.9%
Gross profit	10,500	33,664	+220.6%
Gross profit margin	23.7%	35.6%	+11.9
Profit before taxation	8,820	-2,697	-130.6%
Profit before taxation margin	19.9%	-2.9%	-22.8
Net profit	7,030	675	-90.4%
Net profit margin	15.9%	0.7%	-15.2
EBITDA	13,429	11,076	-17.5%
EBITDA margin	30.3%	11.7%	-18.6



Picture 12.2. The financial ratios and their dynamics during the 9 months of 2006

### 13. Data about the secondary trading in the issuer’s securities

As from 21 November 2005, the ordinary registered shares of AB “Sanitas” were admitted to the Official List of the Vilnius Stock Exchange (hereinafter – the VSE). Before 21 November 2005, the Company’s shares were traded on the Current List of the VSE.

Table 13.1. Main characteristics of AB Sanitas shares listed in the Official List

Type of shares	ISIN code	Number of shares	Nominal value, LTL	Total nominal value, LTL
Ordinary registered shares (ORS)	LT000010617	31,105,920	1	31,105,920

Table 13.2. Trading in ORS of AB Sanitas in the VSE

Reporting period	Price, LTL			Turnover, LTL			Date of the last session	Total turnover	
	Highest	Lowest	Last session	Highest	Lowest	Last session		Units	LTL
I Q 2005	53.93	44.70	52.00	148,983.00	0	4,940.00	31 03 2005	32 918	1,679,371.80
II Q 2005	65.00	46.50	58.00	368,482.34	0	25,346.33	30 06 2005	35 053	1,934,037.51
III Q 2005	60.00	51.00	60.00	11,054,479.50	0	85,140.00	30 09 2005	290 642	15,387,023.46
IV Q 2005	72.00	13.00	14.00	38,8018.3	0	235,363.55	30 12 2005	178 424	4,331,494.81
I Q 2006	14.70	12.75	14.32	204,856.55	0	194,037.19	31 03 2006	207 808	2,793,427.43
II Q 2006	15.20	12.88	13.10	429,230.65	0	93,060.00	30 06 2006	286 014	3,933,822.33
III Q 2006	17.00	13.40	16.74	402,278.00	0	21,948.90	29 09 2006	236,086	3,537,562.50



Picture 13.1 Trading in ORS of AB Sanitas in the VSE for the period 01 01 2006 – 29 09 2006

Table 13.3. Capitalization of the Company’s shares



<b>Date of the last session</b>	<b>Number of ORS</b>	<b>Last price, LTL</b>	<b>Capitalization, LTL</b>
31 03 2005	1,791,059	52.00	93,135,068.00
30 06 2005	1,791,059	58.00	103,881,422.00
30 09 2005	2,200,000	60.00	132,000,000.00
30 12 2005	11,000,000	14.00	154,000,000.00
31 03 2006	11,000,000	14.32	157,520,000.00
30 06 2006	11,000,000	13.10	144,100,000.00
29 09 2006	31,105,920	16.74	520,713,100.80